





## EUROPEAN NEWS

## Yugoslav premier to warn republics

By Judy Dempsey and Laura Silber in Belgrade

YUGOSLAVIA'S prime minister, Mr Ante Markovic, will today deliver a toughly worded speech to the federal assembly in which he will ask the six republics if they genuinely back his economic reforms.

If they do, then Mr Markovic's plans to modernise the fiscal system, introduce privatisation and attract foreign investment may finally see the light of day.

If the republics reject his proposals, which reconcile federal-based economic policies with demands by some republics for greater autonomy, any hopes that Yugoslavia can continue to function as a feasible

state and move closer to the European Community are doomed. The prime minister's increasingly combative stance towards the six republics would have been unthinkable a few months ago.

Then, the two northern republics of Croatia and Slovenia were threatening to secede from the Yugoslav federation. Serbia, the largest of the republics, was gripped by a frenzy of nationalism; and hundreds of ethnic Albanians from the southern province of Kosovo were being summarily sacked from their jobs by the local administration, which is backed by Serbia.

Those thorny issues have

not died. The difference today is that Slovenia and Croatia have democratically elected governments and Serbia soon goes to the polls. But most important, and against all the odds, Mr Markovic has set up a national-based Yugoslav party called the League of Reformed Forces.

The aim of the party is simple: if Yugoslavia is to continue as a state, political parties must transcend the ethnic base upon which most are based and appeal to a wider, more "national" audience.

Signs that Mr Markovic's party is gaining some credibility in this direction emerged last weekend during free elec-

tions in Macedonia, one of the poorest republics in the south. Although the full results have not been confirmed, the League is likely to form a coalition with reformed Communists. The two most important elections are yet to come. The republic of Bosnia-Herzegovina goes to the polls on Sunday, and Serbia next month.

If Mr Markovic can make a significant impact in these republics, Yugoslavia will have begun to pass from three years (and five suppressed decades) of sordid nationalism and ethnic hatred, to a more liberal political environment.

But as many Yugoslavs admit, that "if" is very big.

## Oldest E German reactor to be closed

FORMER East Germany's oldest nuclear reactor is to shut down permanently because it cannot be modernised to new standards imposed by German unification, Reuters reports from Berlin.

The 24-year-old reactor at Rheinsberg, some 60 km (35 miles) north of Berlin, may take 30 years to demolish fully as radiation will have to wear off first, said Mr Dietmar Brauer, a spokesman for the Energie Nord AG company.

East Germany switched off most of its nuclear power in February to avoid another Chernobyl-style disaster. Formerly, nuclear power provided around 12 per cent of electricity.

The East Berlin government originally wanted to keep the Soviet-built Rheinsberg unit working until 1993 but it was switched off five months ago pending the result of a study.

Mr Brauer said the study confirmed the 70-megawatt reactor should shut. It will be partially dismantled and then sealed for the next 25 to 30 years.

Nuclear waste from the plant would be transported by train for underwater storage at the Greifswald nuclear plant on the Baltic coast.

## Romanian workers protest over price rises

SEVERAL thousand workers demonstrated against government policies in a north-eastern Romanian city yesterday ahead of protest rallies planned for today, according to national radio, Reuters reports from Bucharest.

The demonstration in the industrial city of Bacau was the latest bout of unrest sparked by government economic reforms and price rises.

The protest was a foretaste of rallies planned in most cities today against President Ion Iliescu and the economic reforms of Prime Minister Petre Roman's government.

Meanwhile, several hundred banner-waving supporters of the opposition Free Democrats and monarchists protested in Bucharest.

They shouted "Down with Iliescu" and demanded urgent government action to support ethnic Romanians in the neighbouring Soviet republic of Moldova who have been involved in clashes with a separatist Russian-speaking minority.

Free trade unions and pressure groups have called rallies for today to protest against the way the ruling National Salvation Front (NSF) has handled the economic crisis.

## Spirit of CFE treaty disappears east of the Urals

By Ian Davidson in Paris

THE East-West treaty on the reduction of conventional forces in Europe, due to be signed in Paris on Monday at the opening of the pan-European summit meeting, should guarantee a deep reduction in the potential military threat to western Europe from the Soviet Union.

But senior officials in the French and German governments are privately critical of the Soviet Union for allegedly circumventing, on a massive scale, the intentions of the treaty on Conventional Forces in Europe (CFE) before it comes into force.

The main thrust of the CFE treaty imposes deep cuts in Soviet holdings of offensive conventional weapons systems, so as to establish parity between the two alliances inside the treaty area which runs from the Atlantic to the Urals. Under the treaty, these reductions should mainly be brought about by the verified destruction of weapons systems.

But French and German officials charge that the Soviet Union is removing vast quantities of its surplus holdings of the specified weapons categories out of reach of the CFE restrictions in the treaty area and transferring them east of the Urals, before the CFE agreement comes into effect.

The claim is not that these unilateral transfers are illegal, but that the Soviet Union is acting against the spirit of the treaty negotiations.

The CFE treaty will guarantee a low and stable balance of weapons systems inside the treaty area. But the large volume of Soviet offensive weaponry now transferred east of the Urals will be potentially available for transfer back again in the event of a crisis in the European zone.

West European officials do not claim that Moscow is preparing for a re-conquest of eastern Europe, even though they have heard no plausible, and certainly no reassuring, justification from the Soviet Union for the large transfers of weaponry. But they do infer that the Soviet political leadership is so weakened that it is unable to resist demands from the armed forces to re-equip large arsenals which would otherwise have had to be destroyed.

The CFE treaty sets fixed ceilings for five categories of weapons: tanks, artillery, armoured combat vehicles, aircraft and helicopters. Any equipment in excess of these ceilings at the moment of signature must be destroyed, irrevocably converted to civilian

use, or else transferred to some other category.

The Soviet Union claims that around 70 per cent of its reductions will have been achieved unilaterally by transferring military equipment east of the Urals, out of the treaty area. According to figures reportedly provided by the Soviet Union to the US Administration, the not tabled in the multilateral negotiations in Vienna, the Soviet Union is claiming that 71,000 items of treaty limited equipment will have been transferred by next Monday.

Under the treaty the Soviet Union should cut its holdings of battle tanks from the 41,500 which it had in the zone in July 1988, to a new ceiling of 23,150, a reduction of 44 per cent. The Soviet Union is now claiming that over half of this reduction - 20,000 tanks - will have been achieved by unilateral physical transfer out of reach of the CFE treaty. Similarly its holdings of

Soviet offensive weaponry now transferred east of the Urals will be potentially available for transfer back again in the event of a crisis

artillery should be reduced from 52,400 to 13,175 pieces, a cut of 75 per cent. The Soviet Union now claims that 24,000 artillery pieces will have been transferred before signature of the treaty.

Some US experts argue, however, that the Soviet weapons transfers may be entirely illusory. They say that the Soviet Union has told the US that of the 30,000 tanks transferred east of the Urals, 8,000 are being exchanged with older equipment in the Soviet Far East, 4,000 have already been either destroyed, converted or exported, and that a further 8,000 will be either destroyed, converted or exported. They also believe that much of the retained weapons systems are being stored in the open and will be rendered progressively unusable by rain and frost.

If the surplus Soviet weapons are in fact being destroyed east of the Urals, it would be tempting for Western governments to seek verification of the fact. The trouble is that any Western move to extend CFE inspection procedures outside the treaty zone in the eastern Soviet Union would certainly prompt a Soviet demand for inspections in the US, which is likely to be unacceptable to Washington.

## Papandreou defies court

THE former Greek Socialist prime minister, Mr Andreas Papandreou, who faces charges of accepting bribes while in office, yesterday defied an order to appear before an investigating magistrate next week, writes Kerin Hope.

One of Mr Papandreou's aides delivered a letter to the magistrate claiming that "my faith in justice does not allow me to participate in a process that undermines its authority and makes it the focus of a political confrontation".

Mr Papandreou, now the opposition leader, argues that his indictment by parliament last year for alleged involvement in the Bank of Crete embezzlement scandal, was a political plot.

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## INTERMARKET FUND, Societe Anonyme 2, boulevard Royal Luxembourg R.C. Luxembourg B 8622 AVIS DE CONVOCATION

Les actionnaires sont convoqués à assister à une assemblée générale extraordinaire de la société qui se tiendra au siège social, le 15 novembre 1990 à 11 heures et qui délibérera sur l'ordre du jour suivant :

- Modifications des statuts pour les adapter à la loi du 30 mars 1988 sur les organismes de placement collectif et à certaines modifications de la loi du 10 août 1915 sur les sociétés commerciales, notamment par modification des articles 3, 12, 13, 20, 23 al. B (e), 25 et 30.

Il est porté à l'attention des actionnaires que le quorum requis pour les résolutions est de 50% des actions en circulation et que les résolutions y afférentes peuvent être votées par une majorité des 2/3 des actions représentées.

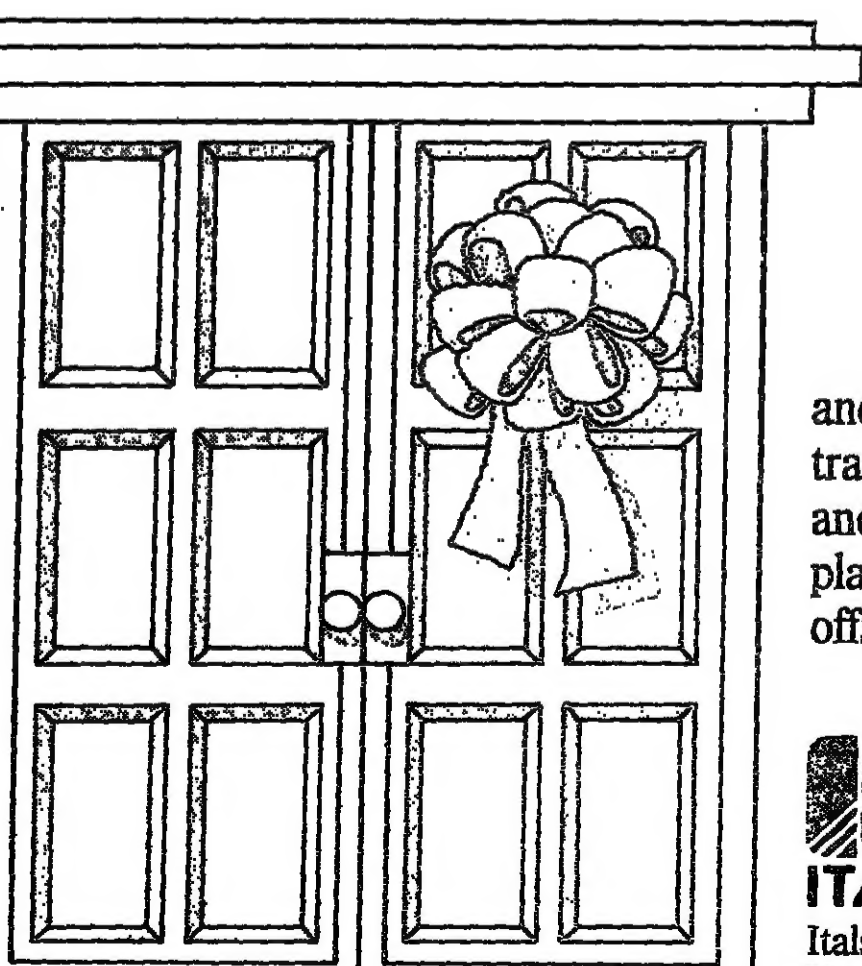
Pour être prise en considération les procurations doivent être repues au siège de la société au plus tard à 17 heures la veille de l'assemblée générale. Les détenteurs d'actions au porteur sont requis de déposer leurs actions auprès de la Banque Internationale à Luxembourg, 2 boulevard Royal, Luxembourg ou auprès de la Banque Arabe et Internationale d'Investissement, 12, Place Vendôme, 75001 Paris.

Des formules de procuration contenant le texte intégral des statuts tel que modifiés sont disponibles au siège de la société et auprès de la Banque Arabe et Internationale d'Investissement.

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and nuclear power plants, traditional petrochemical and iron metallurgical plants, water pipelines and offshore systems.

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## EUROPEAN NEWS

Akhromeyev denounces  
rumour of military coup

By Quentin Peel in Moscow

**MARSHAL** Sergei Akhromeyev, former Soviet chief-of-staff and the most respected soldier in the military establishment, yesterday denounced suggestions of a possible coup as a deliberate plot to discredit the armed forces.

At the same time, he insisted that the Red Army might be used to defend the Soviet constitution and to prevent the disintegration of the Soviet state.

In a furious defence of the military, Marshal Akhromeyev, now an adviser to President Mikhail Gorbachev, warned that "nationalist-minded elements are trying to wreck the federal structure of our state".

However, while he called for the defence of the "federal socialist state", he also recognised that "a multi-party society, and the political struggle of the parties for influence is quite legitimate".

He accused nationalists and radical anti-communists of orchestrating a campaign of coup rumours to discredit the army, navy and air force.

Marshal Akhromeyev's article was published in the conservative daily newspaper, Sovetskaya Rossiya, the day after President Gorbachev had



Marshal Akhromeyev denounces coup

himself warned a military coup would be the danger of the disintegration of the state.

Referring to the current negotiations to draft a new union treaty between the 15 Soviet republics, the Soviet leader said: "The union of sovereign republics, to use a military idiom, is the last line of the trenches. Beyond lies the disintegration of the state."

At the same meeting, Marshal Dmitri Yazov, the Defence Minister, warned of "negative moods in the army, tensions and dissatisfaction with the

service. "In his article, Marshal Akhromeyev attacked the group of 47 leading politicians, academicians, scientists and middle-ranking officers, who warned of the danger of a military dictatorship in an open letter to Mr Gorbachev last July. "From my point of view, they speak about the removal of the socialist system, and its replacement with the capitalist one," he said.

He rejected the accusation that the 1,991 marshals, generals and admirals in the Soviet armed forces would launch a coup simply to protect their privileges, insisting that "all privileges with regard to state dachas have been abolished".

He said that since the middle of the year, a "campaign to discredit the armed forces has merged with the campaign to discredit the Communist Party, and drive it onto the sidelines of political life".

Thus the advance began against our federal political structure, with the aim of disintegrating it, and against our socialist order, with the aim of liquidating it."

If in the course of such struggle, not the Communist Party, but some other party wins the elections, the armed forces will recognise that fact."

Spanish inflation up  
one percentage point

By Peter Bruce in Madrid

A 10-DAY truckers strike and rising oil prices helped to push inflation in Spain up by almost a full percentage point in October, the government announced yesterday.

This brought year-on-year inflation to 7 per cent and accumulated price rises this year to 6.4 per cent.

The government had been hoping to end the year on an inflation rate of just under 7 per cent. It may still do so, although the Gulf situation makes that impossible to predict.

Petrol prices have begun to fall this month and officials were at pains yesterday to point out that underlying inflation rose by just 0.5 points in October. This puts it at its lowest level for 25 months, they said.

Increasing signs that the economy is finally reacting to monetary measures designed to cool it down have also come with an October rise in unemployment of 44,478. This is the third monthly rise in succession and brings the total percentage of Italy's jobless to 15.64.

The Bank of Spain, nevertheless, is warning in its latest quarterly report that unemployment will continue to rise unless wage demands moderate.

It forecasts average inflation of 6.7 per cent for the year and a rise of 7.8 per cent in unit labour costs.

The bank says Spain's current account deficit will rise to around 3.5 per cent of gross domestic product this year from 2.7 per cent in 1989.

Plan to open  
up satellite  
sector in EC

By Lucy Kellaway in Brussels

THE European Commission yesterday proposed a break-up of state monopolies in Europe's highly regulated satellite communications market.

The plans will clear the way for an important expansion in the satellite television industry.

It will allow private companies to set up communications networks such as audio-visual and data links, Commission officials said.

Proposals on deregulation and standardisation will, furthermore, allow companies in the EC to manufacture satellites at close to half the current cost.

Such proposals would reduce the price of household receiver dishes such as the ones used for satellite television, the officials said.

European manufacturers now supply only 20 per cent of the \$7bn global market for satellite equipment.

Phone-call routing will be the only service left under the state monopoly control if the Twelve governments approve the set of proposals in a green policy paper presented by the telecommunications commissioner, Mr Filippo Maria Pandolfi.

But they are far from united in support of the liberal plans. Although The Netherlands was moving towards the liberal approach of Britain and Germany, France and Belgium lead the opposition.

Both countries fear that the plan will strip too much power from state telecommunications monopolies.

Ministers are expected to begin talks on the issue in early December.

Poland and  
Germany  
sign treaty  
on frontier

By Christopher Sobinski in Warsaw

THE Polish and German foreign ministers signed a historic treaty here yesterday, confirming Poland's existing western frontier and renouncing German claims to territories lost as a result of the Second World War.

In his speech at the ceremony, Mr Hans Dietrich Genscher took care to refer to the feelings of those Germans who lost their homes as a result of the territorial shift. He also made clear to his Polish counterpart, Mr Krzysztof Skubiszewski, that the 200,000 or so Germans still living in Poland remain an object of concern to his government.

"The treaty signed today does not surrender anything that was not lost long ago as the result of a criminal war and a criminal system," Mr Genscher said.

Visa restrictions on Poles will be lifted by the end of this year as a result of the treaty. Mr Genscher also stressed that Germany supported Poland's request for association with the European Community.

The treaty strengthens the hand of the Polish prime minister, Mr Tadeusz Mazowiecki, in his fight to be elected Poland's president on November 25. The supporters of his main rival, Mr Lech Walesa, have criticised Mr Mazowiecki for making little progress in improving relations with Germany.

Poland and Germany have yet to negotiate and sign a treaty on mutual relations. This would include provision for the disruption caused to Poland's trade following the disappearance of East Germany. This agreement is to be completed by next January.

## European central bank statutes fail to rule on division of powers

## Basle agreement leaves issues unresolved

By Peter Norman, Economics Correspondent

THE statutes of the proposed European central bank, agreed in Basel on Tuesday, have left open a number of important issues including the division of powers between the bank's executive board and ruling council and how the bank's profits should be shared.

Monetary officials involved in negotiating the statutes endorsed the assessment of Mr Karl Otto Pöhl, the Bundesbank president and chairman of the EC central bankers' committee, that agreement had been reached on nearly all the bank's basic principles. But the statutes also contain many gaps and some inconsistencies.

One important point, the eventual site of the proposed bank, has been left open deliberately for EC leaders to decide.

However, other more technical issues are unresolved, either because the 12 EC central bank governors ran out of time on Tuesday or because of differences among the 12.

The unresolved points include: ● How responsibilities should be shared between the bank's six strong executive board and the 18 strong council, comprised of the board and the EC's 12 national central bank governors.

Germany is seeking to have monetary policy decisions over interest rates, money supply growth or the use of exchange reserves concentrated in an executive board of career central bankers. Other countries favour giving national central banks a

greater say. ● The European bank's external policy. Difficulties here include how far national foreign exchange reserves should be pooled, with some countries arguing for a large pool of reserves would give the central bank credibility and others saying this will not be necessary. A further complication arises because reserves in some countries, such as Germany and Belgium, are owned by the national banks while in others, such as Britain, they are owned by the Treasury.

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## Increasing opposition to Bulgarian leader

BULGARIA'S political crisis deepened yesterday as the governing Socialist Party revealed that the party leader faces growing opposition from reformers, including Andrei Lukanov, the prime minister, AP reports from Sofia.

Mr Lukanov's crippled government has proposed massive price rises on basic foodstuffs, including bread, sugar, cooking oil and meat. Many of these items are already rationed or scarce.

The Socialist Party daily newspaper, Duma, yesterday reported details - for the first time ever - of a meeting of the party leadership, exposing an escalating power struggle between reformers and the old guard.

Duma's chief editor, Mr Stefan Prodev, a prominent member of the party's Supreme Council, said he would resign.

In view of the party's disarray, the Socialist Party, which won free elections in June, is the former Communist Party. It is steadily losing support because of the Socialist government's inability to solve the country's deepening economic and political crisis.

Mr Lukanov, who has grown increasingly impatient with his party and the parliamentary opposition for their inability to agree on his program of economic reform, could soon face a vote of no confidence in Parliament from the opposition.

Both the governing party and the opposition Union of Democratic Forces are plagued by deep divisions.

The two main forces in Parliament are at odds over whether to form a coalition government to push through badly needed economic reform. Two overnight marathon ses-

sions of the Socialist Party's Supreme Council last week and Monday discussed a letter sharply attacking the leadership and the party chief Mr Alexander Lilov in particular, Duma said. The critical letter "proposed" that Mr Lilov resign.

The letter was signed by 16 reformers, including a two-thirds majority in the 13-member presidency of the Supreme Council. The signatories included Lukanov and Lilov's first deputy and most likely successor Mr Alexander Tomov.

Mr Lilov became party leader earlier this year. He served as chief ideologist under deposed Communist dictator Todor Zhivkov, but was ousted by him in 1983.

Mr Lukanov clearly distanced himself from Mr Lilov by signing the letter. He was quoted as because he necessary, agreed with the document abstained from a narrow majority of 50 rejected as an official. Mr Lilov posed change man pre reported. T quoted as pared to resolved a move would "defection". However rejected par conclusions an possible su. Other c leaders we expressed resign, but

Companies spell out their  
objections to VAT plans

By Lucy Kellaway in Brussels

EUROPEAN companies claim Brussels' plans for collecting value added tax after 1992 will increase costs, will be a clumsy tool for checking tax returns, and will result in an unnecessary flood of information that will clog up tax offices.

Unice, the European employers' union representing the biggest companies in the EC, has written to Mr Rino Formica, Italy's finance minister and president of the Council for financial affairs, protesting at the plans and urging a more flexible approach.

Unice is particularly upset

about the mandatory quarterly lists of exports per product and per customer that big companies would have to fill out. Such a requirement, it says, runs against the very objectives of the single market, which are to reduce the burden of costs on companies doing cross-border business.

The problem how to collect VAT once frontiers have been abolished has proved one of the most difficult in the single market programme. If agreement is not reached soon, the end 1992 deadline for removing frontiers will be missed.

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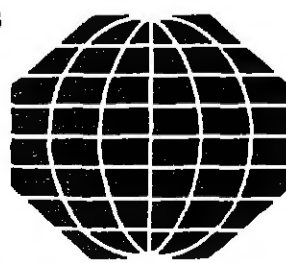
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## WORLD TRADE NEWS

## GKN heads for £200m UAE deal

By David White in Jeddah

GKN, the British engineering group, is negotiating to supply several hundred Warrior combat vehicles to the United Arab Emirates in a deal that could be worth at least £200m.

The contracts, if won by GKN, would be the first export of the tracked infantry vehicle, which is already in British army service and is among the equipment sent with UK troops to Saudi Arabia.

It would compensate for the British government's plans to slow the rate of its Warrior purchases as an economy measure.

The British army is buying a total of about 1,000 Warriors. Competition for the UAE contract includes the Soviet BMP vehicle.

GKN is also believed to be discussing sales of a specially adapted desert-fighting vehicle to Oman and Jordan. The UAE, however, is interested in the same vehicle as that supplied to the British army of the Rhine.

General Dynamics of the US is favoured to win another major UAE arms contract for main battle tanks. The UAE, which before Iraq's invasion of Kuwait was also the target of Iraqi threats over oil production policy, has been taking steps to bolster its armed forces.

## US aims to end Uruguay impasse

By Peter Riddell, US Editor, in Washington

THE US intends to intensify its efforts to break the current stalemate in the Uruguay Round trade talks as President George Bush begins a series of meetings with European heads of government.

Mr Bush held talks late on Tuesday at the White House with Mr Giulio Andreotti, the Italian prime minister and president of the European council of ministers, and with Mr Jacques Delors, the European Commission president.

The White House said "it was agreed that renewed efforts at top political levels would be made so as to achieve the common ground on the issue of agricultural subsidies, which is needed to move beyond the present impasse in the Gatt negotiations".

The Bush administration has rejected the option of walking out of the negotiations because of its dissatisfaction with the EC proposals on farm subsidies.

Instead, there will be a concerted campaign to seek a compromise with a top US team, headed by Mr James Baker, the Secretary of State, due in Brussels for talks tomorrow. Mr Bush himself will meet German Chancellor Helmut Kohl on Sunday and other EC heads of government in Paris over the following three days as he attends the 34-nation Conference on Security and Co-operation in Europe.

There has been increasing

gloom in Washington about the outcome of the talks, as well as warnings from Congressional leaders about the difficulty of winning the necessary Senate approval for any package unless there is a substantial cut in farm subsidies.

Moreover, any extension of the talks beyond the end of the year risks unravelling the "fast-track" authority under which authorising legislation is voted on without amendment before next June.

## Washington spotlights decline in Europe's farming population

By Tim Dickinson in Brussels

THE US yesterday highlighted the long-term decline in Europe's farming population in a new propaganda salvo aimed at the trade talks under the General Agreement on Tariffs and Trade (Gatt).

US officials said they were trying to show that the prospect of reduced numbers in EC agriculture has less to do with the subsidy cuts proposed in the Uruguay Round than with fundamental demographic changes affecting all industrialised countries.

Using mostly official EC statistics, they point out in a paper that, largely due to tech-

nological advances and production efficiencies, the exodus from Community agriculture was 34 per cent in the 1980s, and 25 per cent in the 1970s. The EC's single market exercise would lead to greater consolidation in the sector.

Not surprisingly, the US paper is dismissive of "costly, production-based subsidy programmes". But it provides strong support for the sort of alternative measures, "already in effect and either currently budgeted for, or anticipated to be funded in the immediate future", which seek to address "in a non-distortive way many

of the needs of an ageing farm population that is dominated by part-time farmers with small operations".

Separately, US officials in Brussels insisted that despite difficulties, the farm reform negotiations had not broken down. Asked whether the US would pull out before early December if no progress had been made, one replied: "I would advise strongly against that. You soldier on even if the prospects are unpromising, though I don't think there is any reason to abandon hope. I don't think Washington will be the first to walk away."

## Dissension 'will further hit EC-US trade'

By Nancy Dunne in Washington

US OFFICIALS say an escalating US-EC dispute over meat inspection symbolises the future of bilateral trade torn by dissension if the two sides cannot come to agreement in the Uruguay Round over farm trade reform.

Mr Clayton Yeutter, US agriculture secretary, and Mr Ray MacSharry, EC agriculture commissioner, have agreed to take time during tomorrow's US-EC ministerial meeting to discuss the EC's banning of American pork imports and its threatened ban on US meat sales. Mr Yeutter last week called the new "sanitary" in the negotiating environment that... we certainly could have done without."

As in the past, the dispute centres on US claims products are being banned under the guise of health and safety protection when the true purpose is to protect EC producers from import competition. If the US prevails in the Uruguay Round, this sort of dispute would be handled under special rules needing a scientific basis for such embargoes.

As at October 31, US pork from plants once considered eligible for admission to the EC has been banned. The few US beef exports remaining after institution of the embargo against cattle fed with hormones, will themselves be embargoed starting January 1. These actions effectively force

all US fresh meat products out of the EC market except horse and sheep meat.

The US has begun talks under Gatt over the issue, with plans to seek a dispute settlement panel later. US Agriculture Department inspectors have been sent to the EC to find grounds for US retaliation. At stake is \$400m (250m) worth of EC meat exports a year. The National Pork Producers Council, backed by several congressmen and senators, has demanded immediate retaliation under Section 301 of the 1974 Trade Act.

Tim Dickinson adds from Brussels: While EC officials insist genuine health concerns inspired the ban, both the EC

beef and pork markets are in a distressed state. EC beef stocks have jumped this year to 450,000 tonnes, because of consumer fears over BSE, disruption of Middle Eastern export markets, and imports from eastern Germany.

Pork prices are depressed, touching Ecu 117 per 100kgs last week, or 62 per cent of the so-called "basic" price considered a target by EC policymakers. The EC does not operate a guaranteed buying-in system in the sector, but through export refunds helps producers sell on world markets. EC pig meat exports last year totalled 457,000 tonnes, against 137,000 tonnes imported from non-EC sources in that time.

Developing countries have started to join criticism of the EC's proposals on world farm reform, William Dullforce reports from Geneva. According to an assessment circulated among them, the EC offer should please governments aiming to keep preferential access to the EC market or maintain EC subsidies on their food imports.

Countries belonging to the food security lobby would be no worse off, but others "would perhaps be better off with no offer from the EC". The assess-

## Storm grows on EC farm offer

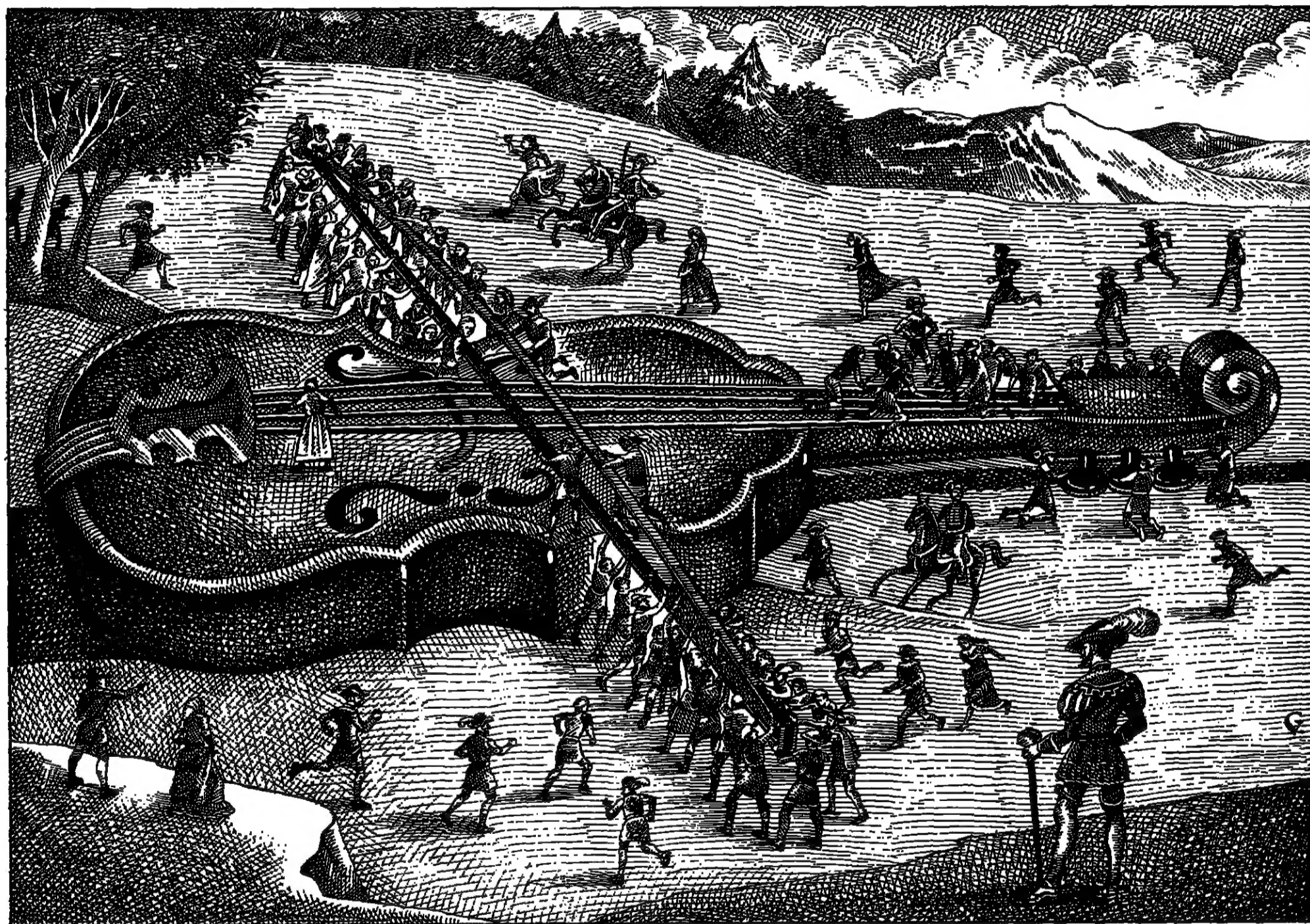
ment dismisses the EC's proposals on border protection and export subsidies as offering "obscure changes in its calculations of domestic and world price differentials".

Brussels' offer to cut internal farm supports, 30 per cent relates only to main commodities such as cereals, rice, sugar and meat, the assessment notes. For other products, a 10 per cent cut is proposed.

By choosing 1986 as the base year from which the cuts will be calculated instead of 1988 as suggested in the talks, the EC

has ensured that in some cases the effective cut would be less than 30 per cent or 10 per cent. The 30 per cent cut proposed in support for sugar beet adds up to only a 22 per cent reduction from a base year of 1988 or 12 per cent from the 1989 support level, the assessment states.

The EC's "re-balancing" concept, where it would be allowed to introduce tariff quotas on imports of oilseeds and non-grain foodstuffs, is seen as a bid to "plug the biggest hole in the Common Agricultural Policy's protective shield".



## Taiwan rewrites Gatt memo

DRASTIC changes in Taiwan's economy have prompted Taipei to re-write the memorandum on its trading system it submitted when it applied to join the General Agreement on Tariffs and Trade (Gatt) on January 1, 1980, according to reports from Taipei.

Mr Chiang Bing Kun, vice-economics minister, said recently the memorandum forms the basis for negotiations on entering Gatt. But Taiwan's economy had slumped in the past 10 months, export growth and

production declined, outward investments increased, costs had risen and the environmental lobby had grown stronger. Moreover, import duties had been cut, import procedures streamlined and restrictions on imports of farm goods been eased. Thus, it was necessary to revise the trade memorandum. There was no reason why a major trading nation such as Taiwan could not be a Gatt member.

The revised memorandum is to be submitted by the end of the year.

## Business returns after Tiananmen

SEVENTEEN months after the crackdown on the pro-democracy movement in Tiananmen Square, western companies have renewed interest in doing business in China.

While not on the same scale as before June last year, a revived flow of corporate executives, traders, and officials to the end of last month, the China is reported by diplomats and western businessmen.

"Many who had put business decisions on hold due to the political shock and economic retrenchment are now trying to pick up again," said Mr Martin Wolf, of the US-China Business Council. "The passage of time has dulled the political shock of June 4."

Several contracts have been concluded in recent months. They include investments by the US companies Dupont, the chemicals group, Pina Hut the fast food franchise owned by Pepsi-Cola, IBM, the computer company, and Amoco Chemical. Other deals are close to being finalised.

Last spring Dupont established a joint venture in Shanghai to manufacture fine leather goods. Located in Pudong, a suburb of Shanghai which the Chinese are trying to promote as a development zone, the project was the first involving foreign participation in the area.

Pina Hut recently started a joint venture in Peking with an overseas-Chinese businessman from Thailand.

In Tianjin, after nearly five years of negotiating about various projects, IBM has also established a small joint venture to manufacture personal computers in what is IBM's first production joint venture outside the US.

Motorola is also believed to be close to finalising a project with the Chinese to produce integrated circuits and communication equipment in Tianjin.

Several months ago, Amoco Chemical announced it had agreed to participate in a joint venture near Yangzhou in Jiangsu province to manufacture chemical fibres.

In recent months, Canadian companies have signed US\$90m worth of business to sell flight simulators and equipment in the petrochemical, water, and telecommunications sector.

"The Canadian soft loans were never suspended," one diplomat said. "They increased their business on the back of their soft loan policy."

Believing they could lose to competitors (including those from Hong Kong and Taiwan), various European Community countries are also pushing to improve their commercial relations as well, western diplomats said. Spain, Britain and Italy are seeking greater commercial contacts with China.

The Spaniards, in particular, have large amounts of undisputed soft credits for China, diplomats said.

EC countries meeting in

Luxembourg last month agreed to lift some of the sanctions they imposed at a meeting in Madrid last year after the Tiananmen crackdown. High-level contacts and official loans are to be resumed but the embargo on military sales and co-operation is to remain in force. At the end of last month, the World Bank, which had held off all but humanitarian aid to China, agreed a loan of \$275m for agricultural projects.

"Countries which were never part of the Madrid declaration continued to lend to China," one western diplomat said.

While the Madrid declaration did not prevent companies from doing deals on commercial terms, it did stop government-backed commercial agreements and it ruled out new projects. The definition of

Lynne Curry finds that time has dulled the shock felt by western companies at events in Peking

new projects varies from country to country.

The Australians have stepped up their exports of coking coal while barley sales (for making beer) have soared more than 30-fold. Gove Alumina signed the first Australian long-term agreement to supply alumina to China since the crackdown.

In addition, they and the Chinese have established a gold exploration joint venture in Australia. They have also established smaller joint projects in China since last year. And they have signed a new \$30m export credit agreement with the Bank of China for disbursement to domestic Chinese companies who plan to purchase Australian equipment and technology.

The Japanese have stepped up their financing since the leaders of the Group of Seven countries met for an economic summit last year in Houston. They have recently agreed to sign a soft yen loan package, their third, for about ¥810bn (\$2.3bn) to finance 17 projects through 1995.

All this comes at a time when China is seeking to regain some of the respectability it lost last year. It has supported all the UN Security Council resolutions condemning the Iraqi invasion of Kuwait.

"The renewed business is qualitatively different from that before June 1989. More deals are being done on a smaller scale, as foreign businessmen have adopted a more cautious approach. That seems likely to be the pattern at least until the question of who will succeed Deng Xiaoping, the Hungarian patriarch, is settled."

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## AMERICAN NEWS

## Empty shell of El Salvador's democracy

Tim Coone examines the possibility of a peaceful solution to the 11-year-old civil war

IN San Salvador, a glass-faced building known as Democracy Tower symbolises the fate of this war-torn country. The building still bears the scars of last November's offensive by guerrillas belonging to the left-wing Faribundo Martí (FMLN).

Shattered windows have been patched with plywood and cardboard. Bullet holes pepper the tinted glass.

As dusk falls, the only lights emanating from the building are reflections from car headlights. It is an empty shell. Like El Salvador's democracy, its outward appearance masks its lack of substance.

One year ago, just a few hundred metres away, six Jesuit priests, one of them rector of the Central American University, were dragged from their beds by troops of the elite, US-trained Atlacatl battalion. The priests were then shot at point-blank range with automatic rifles.

Their housekeeper and her 15-year-old daughter shared the same fate. Shortly before their murder, the priests were accused on pro-government radio stations of being subversives. Their crime was to have spoken out in favour of a negotiated peace to the 11-year civil war and a clean-up of the armed forces.

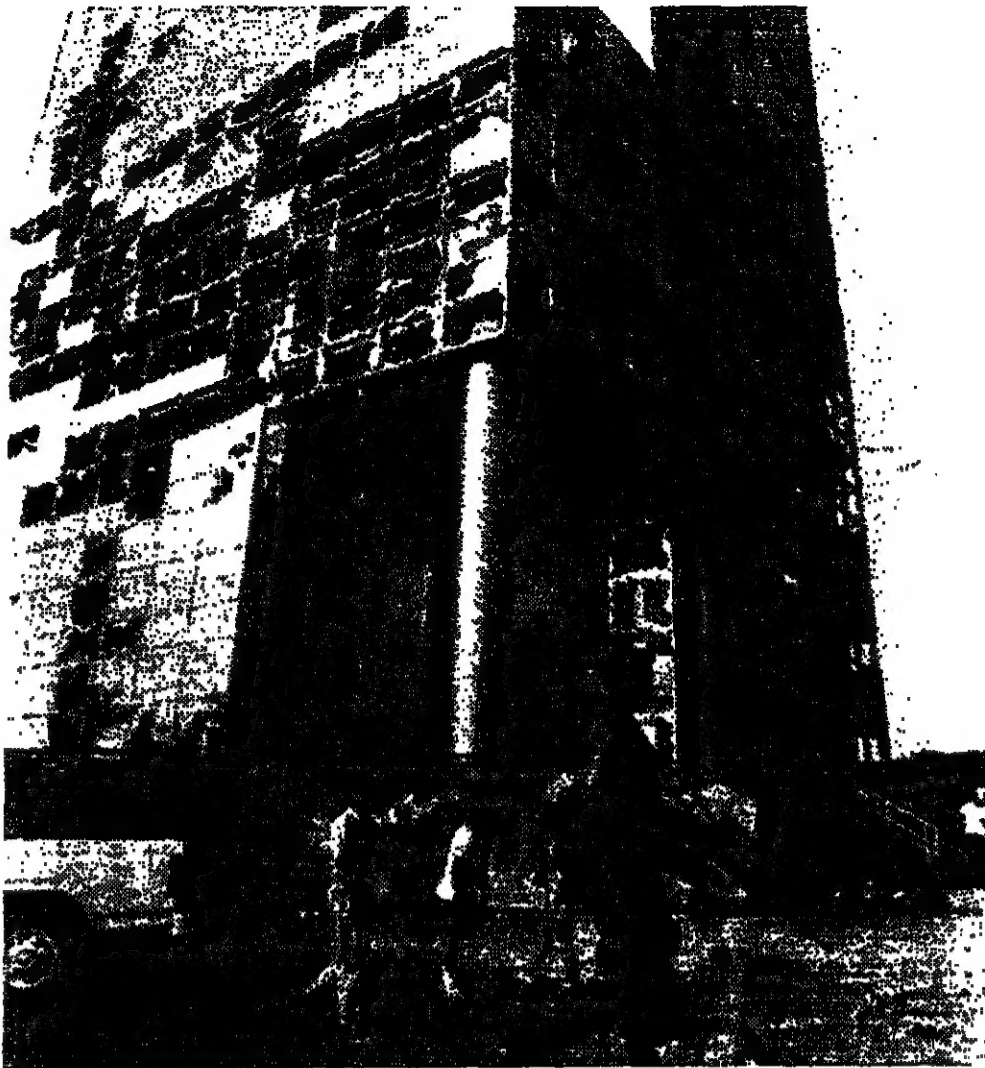
Nonetheless, peace in El Salvador is tantalisingly close. A significant electoral reform has been negotiated by the *interpartidaria*, a forum of political parties. This should be implemented in time for parliamentary elections next March.

The changes will greatly improve the chances of smaller parties winning greater political representation. Judicial reform is also in the pipeline. A litmus test of any change will be whether those responsible for the deaths of the Jesuits are brought to justice.

The head of the Jesuit order in San Salvador, Father Jose Tojeira, recently accused the government of stonewalling the investigation.

The principal obstacle remains the army. For the FMLN, armed forces reform, demilitarisation and the bringing to justice of human rights offenders are the key issues without which there can be no political settlement.

The government is telling the FMLN first to lay down its weapons and to fight by means



Democracy Tower in San Salvador: its empty shell renders it an ironic symbol

of the ballot box. In return the administration promises reform.

The FMLN response is: "If priests can be killed with impunity, what fate can await unarmed FMLN politicians?" There lies the impasse.

The FMLN is not alone in its views. The Catholic church, with all political parties except the ruling Arena party, supports the notion that reform of the army is the key to peace.

Even the US Congress is exasperated by El Salvador's military. A congressional vote recently halted US military aid to El Salvador, pending a satisfactory outcome to the Jesuit

murder investigation.

A recent congressional fact-finding mission to El Salvador produced damning evidence of senior officers' neglect of human rights. According to the resulting report: "Serious questions are therefore raised as to whether the officer corps has either been above the law... or has shown serious problems of competence in failing to halt [abuses]."

All the army's senior command posts, including that of minister of defence, are held by officers from the so-called *tandona* - the officers' school

graduation class of 1966.

Like a masonic lodge they swear unwavering loyalty, which, says the congressional report, "in some instances exceeds not only loyalty to the law and the president, but to the armed forces as a whole".

Mr Ruben Zamora, a social democrat leader and member of the *interpartidaria* said: "The issue is now whether the armed forces are prepared to negotiate a purge or are they not? That has to be clarified."

The implication is that if they are not, another FMLN military offensive is inevitable. Meanwhile, the *tandona* seems to be sitting tight under

its leader, Colonel Rene Ponce, the defence minister.

Western diplomats agree that the FMLN has the capability, the arms, and the manpower to launch another offensive as large and as dramatic as last November's. The major difference is that the guerrillas are now thought to have portable missiles capable of shooting down helicopters and jets.

The government's airpower was decisive in breaking the last offensive. It may not be able to next time.

WHAT, then, is holding the FMLN back? One factor is that a new offensive would automatically restore the \$43m in US military aid presently being withheld by Congress. It might also reinforce the intransigence of the *tandona*. The cut in US aid has dealt a demoralising blow to the army's leadership and weakened its negotiating strength.

The FMLN has apparently ruled out another large-scale attack on the capital in order to minimise civilian casualties and possible negative political repercussions.

Possibly the most important factor is that FMLN negotiators may sense the possibility of a breakthrough in peace talks. President Cristiani may be about to announce important findings in the Jesuit murder investigation.

More than 300 sworn testimonies have so far been taken. The first anniversary of the incident is on November 16, by which time some announcement is expected.

The grip of the *tandona* on the nation's fate may be coming to an end. If so, major FMLN concessions could follow. The recent decision to bar all press contact with the government and FMLN delegations in the latest talks taking place in Mexico suggests that something may be afoot. The alternative is further war.

Thus, for the Salvadorean public, expectations of peace and war are balanced. Life bustles on as normal. The economy is expected to grow by 4 per cent in 1990, although a new guerrilla offensive would shatter that projection.

Meanwhile, like a silent observer to unfolding events, Democracy Tower stares out over the capital. All it needs now is occupants.



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## AMERICAN NEWS

## Weak US retail sales confirm fading confidence

By Michael Prowse in Washington

US RETAIL sales crept 0.1 per cent higher in October, confirming earlier reports of ebbing consumer and business confidence.

The figures, reported by the Commerce Department yesterday, do not allow for inflation, which is running at about 1/2 per cent a month. They were also artificially boosted by the high cost of petrol in the wake of the Gulf crisis, and distortions in the car market.

Excluding petrol and cars, retail sales dropped 0.4 per cent, adjusting for inflation the real decline was probably nearer 1 per cent.

The figures, in line with market expectations, follow dismal sales data from leading US department stores. Sears, Roebuck and JC Penney reported October sales declines of 1.2 per cent and 4.9 per cent respectively.

The data also follow a string of figures indicating the US economy may be slipping into recession. This includes a fall of 68,000 in payroll employment last month and a 0.8 per cent drop in industrial production.

Among other distortions, recent petrol price rises caused a 3.2 per cent increase in service station sales in October; sales were up nearly a quarter from the same period last year. Car sales advanced 0.7 per cent mainly because of large fleet sales to rental companies and the introduction of 1991 models.

Few analysts expect continued strength - General Motors

## Milken sentencing delayed

By Nikki Taft in New York

SENTENCING of Mr Michael Milken, former head of the high-yield department at Drexel Burnham Lambert, the failed US investment house, has been delayed and will not now take place this week.

No new date has been set, although Judge Kimba Wood's chambers stressed yesterday that the delay merely reflected her other commitments.

Mr Milken has pleaded guilty

to six charges related to securities law offences and agreed to pay \$600m in fines and restitution. His sentencing, however, has already been held up by a hearing which examined a series of broader allegations levelled by the government.

Mr Milken told the judge in an emotional plea for leniency made public yesterday that he "never sought notoriety" and was afraid of going to prison.

## Greens freeze out tenuous accord on Antarctica

Leslie Crawford explains why a gentlemen's agreement on mining does not satisfy environmentalists

**P**RESSURE from environmental groups around the world has ensured that the future of the frozen continent of Antarctica has become the focus of debate so heated that the 39 signatories of the Antarctic Treaty have split into two opposing camps.

Should Antarctica become an internationally protected world park or should the last virgin continent on earth be opened to commercial exploitation? This is the dilemma that will confront the guardians of the Antarctic Treaty System during a three-week meeting which begins in Chile on Monday.

Australia and France are leading a campaign to transform Antarctica into a world park and, with the upsurge in international concern over environmental issues, they are rapidly gaining converts. Greenpeace, for example, has collected over 1m signatures around the globe in support of the world park proposal.

An Antarctic world park would be protected by a convention of environmental safeguards which would regulate all aspects of human activity on the continent. It would also forbid the exploitation of Antarctica's hidden treasure of oil and mineral resources.

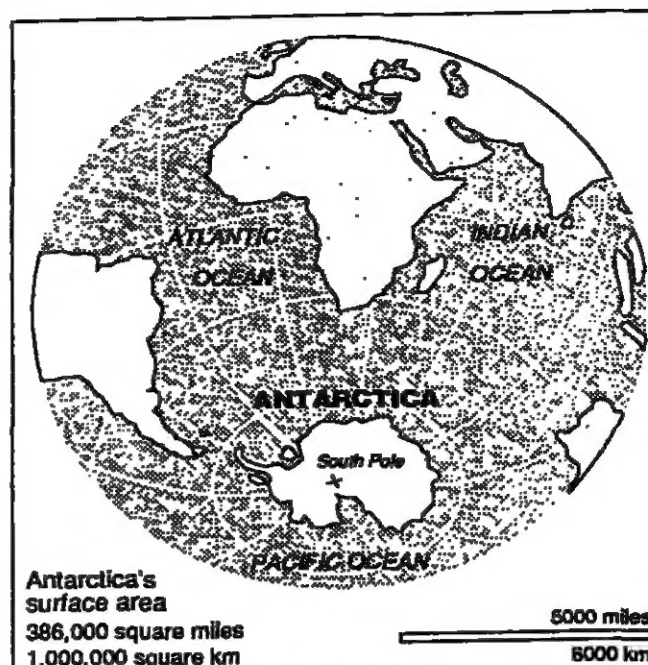
This is where the disagreements set in. For while all parties to the Antarctic Treaty are in favour of protecting Antarctica's fragile ecosystem, some

countries are reluctant to see an outright ban on mining. "We want a pollution-free Antarctica but we also want a useful Antarctica, not a frozen museum protected under a glass case," says Chilean roving ambassador Mr Oscar Pinochet de la Barra.

The rift became public when Australia unexpectedly announced in May last year that it would not sign an Antarctic minerals convention. The decision was all the more surprising because Australia had been an active participant in drafting the document which had been seven years in the making. The convention essentially forbids any mineral exploration or development without the agreement of all treaty participants. But environmental groups were alarmed at an accord that recognised even the possibility of oil drilling.

Mr Gareth Evans, Australia's foreign minister, said of his country's change of heart: "Our fear is that Antarctic environmental protection would suffer in any trial of strength with mining. The only prudent response... is to remove altogether the option of mining which the minerals convention left open." Mr Evans recognises that pressure groups such as Greenpeace and the Australian Conservation Foundation played a big role in influencing his government.

Mr Michel Rocard, the



Antarctica's surface area 386,000 square miles 1,000,000 square km

French prime minister, was similarly swayed by a special report on Antarctica prepared by the Cousteau Foundation. In August 1989 he also announced that France would not be signing the minerals convention.

Some countries have gone further. Belgium, one of the original signatories of the 1961 Antarctic Treaty, passed a law

in June 1989 which forbids any Belgian person or company from engaging in mineral activities in the Antarctic. Similar legislation is being debated in the New Zealand and Australian parliaments and in the French National Assembly.

Britain, Chile and the US, the strongest supporters of a minerals convention, are alarmed at the disarray within

the Antarctic Treaty ranks. "These unilateral decisions run contrary to the spirit of the Antarctic Treaty, where everything was decided by consensus," said Mr Pinochet de la Barra. "It has fragmented the unity of the Treaty and risks making it redundant." Supporters of the minerals convention say that having a set of rules to regulate mining is better than having no rules at all. At present there is only an informal gentlemen's agreement among treaty members to refrain from exploration.

But such a tenuous accord could easily break down if the western world's oil supplies were threatened. "The current Gulf crisis is not accidental," Mr Pinochet de la Barra said. He believes the struggle for control over the world's oil resources will intensify in the future and that someday there may be pressure to drill for oil in the Antarctic. The minerals convention sought to have rules in effect before this happened.

Even though mineral exploitation of the Antarctic is still in the realms of science fiction Britain and Chile argue that an outright ban on mining would destabilise a 28-year-old treaty that is held as a model of international co-operation.

"The Cold War melted in Antarctica long before Washington or Moscow felt the thaw," one diplomat said. The Antarctic Treaty froze all terri-

torial claims and established the world's first international peace zone. Military installations, nuclear tests and the dumping of radioactive wastes are forbidden. The treaty was also instrumental in promoting research and the free exchange of scientific information.

Because no country wants to see the treaty unravel over the mining issue, a search is now on for an acceptable compromise. One possible solution which will be discussed at the meeting in Viña del Mar is a long-term moratorium on mining activities. Australia and France have indicated that they would be prepared to accept a 30-year moratorium. This solution is unlikely to satisfy environmental groups, who say a moratorium would only unleash a race to develop the necessary technology. "It would be a free-for-all the minute the moratorium expired," said Mr Jose Valdez of the Chilean ecologist group Codeff. Greenpeace and other groups will be lobbying the conference delegates to adopt a set of legally-binding measures to protect "the last great wilderness on earth".

Their opinion is one that Antarctic Treaty members can no longer ignore. The white continent's affairs may once have been run by an exclusive club of diplomats and scientists, but they are aware that they are now accountable to an increasingly wider audience.

## US, EC agree on talks accord

By Peter Riddell, US Editor, in Washington

US AND European Community leaders have removed the main remaining obstacles to issuing a declaration of principles intended to strengthen joint consultation.

The declaration will be issued when President George Bush and EC heads of government are in Paris early next week for the 34-nation Conference on Security and Co-operation in Europe.

Following a meeting late on Tuesday with Mr Bush at the White House, Mr Giulio Andreotti, the Italian prime minister and current EC president, said the two leaders had "worked out the draft, the wording of the declaration of the relationship between the

EC and the US". Mr Jacques Delors, the Commission president, was holding meetings in Washington yesterday aimed at finalising the document.

The White House said a US-EC declaration of principles "would further institutionalise the already extensive US-EC consultations that exist on most issues of common interest". This puts on a formal footing the recently increased series of meetings between the US president, his senior officials, EC ministers and Commission members.

The main problems with drafting a declaration have been over references to the now-stalled Uruguay Round

trade talks and to security issues, such as the position of Nato.

The consequent friction - and vagueness of the final declaration - has raised questions as to whether the exercise has been worthwhile. One western diplomat said the document was like "the type of friendship treaty which East Germany used to sign with Cuba".

Mr James Baker, US secretary of state, has been backing the declaration as a means to ensure a continuing US voice in Europe, especially as Nato, until now the main transatlantic bond, faces an uncertain future with the Cold War's end.

## Argentina and Brazil may back nuclear checks

By John Barham in Buenos Aires

ARGENTINA and Brazil are to sign a series of protocols which may open the way for inspection of nuclear installations by the International Atomic Energy Agency, writes John Barham in Buenos Aires.

The protocols could also allow future ratification of the 1967 Tlatelolco Treaty, which established a nuclear weapon free zone in Latin America. The heads of the two countries' atomic energy commissions are to sign the protocols on Friday of next week. The next day presidents Carlos Menem of Argentina and Fernando Collor de Mello of Brazil will sign a bilateral nuclear co-operation agreement.

## Victory for Menem as union quits confederation

By John Barham in Buenos Aires

PRESIDENT Carlos Menem has won another victory over Argentina's dissident trade unions with the decision by a big union to abandon an anti-government labour confederation shortly before a planned demonstration against government policies.

Mr Lorenzo Miguel, leader of the 300,000-strong Unión Obrera Metalúrgica (UOM), took the decision after a long round of meetings on Tuesday to discuss a day of protest, planned for today. Mr Miguel, the grand old man of Peronist trade unionism, said: "There cannot be an attitude of confrontation all the time. This is

a Peronist government and, furthermore, the government has opened channels of dialogue."

At a meeting with union leaders last Friday, Mr Menem offered government recognition of the opposition CGT-Azopardo labour confederation, participation by opposition unions in government decision-making and a share in federal welfare funds. But Mr Saul Ubaldini, CGT-Azopardo leader, rejected the offer.

The loss of the influential and prestigious UOM leaves Mr Ubaldini even more isolated, as most unions support the government's free-market policies.

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## HK to curb tax breaks on aircraft leasing

By John Elliott in Hong Kong

HONG KONG yesterday announced plans to clamp down on tax benefits allowed through depreciation allowances on aircraft and ship leasing. The rules will affect deals struck from today and they could give Hong Kong a stricter cross-border leasing regime than Japan and some other countries.

The authorities estimate that this year's benefits could lead to as much as HK\$10m (US\$1.3m) in tax revenue being deferred for up to 10-15 years or more.

This would amount to 5.5 per cent of the expected HK\$180m profit tax intake this year and Sir Piers Jacobs, the finance secretary, said yesterday that such levels of deferred tax "cannot be tolerated".

The government has allowed use of the concessions, which are mainly used for aircraft leasing, since the 1980s to build up over the past four or five years because they have helped Hong Kong to present itself as a major centre for aircraft financing.

Sir Piers said that amendments would be introduced to the colony's Inland Revenue Ordinance to ensure that "foreign operators" did not get the benefit of depreciation allowances. Rules on tax concessions available to limited partnerships would be tightened.

Businesses which could be hit hardest, in addition to airlines and leasing companies, are corporations like Hong Kong Telecommunications, part of Cable & Wireless, and various banks and consortia of local property companies.

Such groups gain substantial tax deferrals by owning aircraft through limited partnerships.

Companies and banks were not prepared to comment yesterday.

The government plans to restrict the tax concessions to Hongkong operators - for example Cathay Pacific Airways rather than United Airlines and American Airlines which have also leased Hong Kong Telecom aircraft.

## Oil bill holds down Japan's trade surplus

By Shaban Wajid in Tokyo

JAPAN'S trade surplus fell last month to \$2.2bn, as an increase in the cost of oil imports offset a rise in exports boosted by the weakness of the yen.

The total was 30.4 per cent down on the same month last year, according to figures released yesterday by the Ministry of Finance. It was the seventh time this year that the figures showed a decline in comparison with the same month in 1989.

The value of new investment in Japan was also down to record for 1989 as annual trade surplus of around \$50bn, compared with \$60bn last year. The last time the annual surplus stood below \$50bn was in 1985 when it hit \$45bn.

The decline in the trade surplus is squeezing the amount of capital Japan has for investment overseas, including portfolio investment in the US and Europe. However, the reduction is bringing little relief to US and European companies which have complained most strongly in the past about being swamped by Japanese exports. This is because the reduction in the surplus has mainly been brought about by an increase in imports not a decline in exports, which have fallen only once in dollar terms in the last two years - in December 1989. Also, the fall in the trade surplus has been accompanied by an expansion of output at Japanese factories overseas, especially car plants in North America.

Exports last month rose 1.6 per cent to \$26.7bn, boosted by sharp increases in vehicle exports. Exports of electronic equipment, semiconductors and machinery were also all up.

Meanwhile, imports rose 27.6 per cent to \$24.5bn, because of higher fuel import costs caused by the Gulf crisis. Fossil fuel imports rose 75.1 per cent to \$5.24bn, or 27 per cent of the import bill for the month.

## Indonesians launch 'free union'

By Claire Bolderson in Jakarta

A GROUP of workers and human rights activists in Indonesia have formed an independent trade union, which under the name Setia Kawan (Solidarity) aims to challenge the monopoly of the country's one officially sanctioned union. Organisers of the new union said at its launch in Jakarta yesterday that they plan to campaign for better wages and working conditions through what they described as a union "free from the influence of the owners of industry, employers and the government".

Under the Indonesian consti-

## THE MIDDLE EAST

### Prospects fade for Arab summit

By Victor Mallet, Middle East Correspondent

PROSPECTS for an Arab summit to discuss the Gulf crisis faded yesterday when Saudi Arabia and Iraq attached diametrically opposed conditions to any such meeting.

Prince Saud al-Faisal, the Saudi foreign minister, said a gathering would be fruitless unless Iraq agreed to abide by international and Arab League resolutions calling for an Iraqi withdrawal from Kuwait.

The Middle East has been humming with diplomatic activity since King Hassan of Morocco proposed a summit as a "last chance" to avert war. President Mubarak of Egypt was due to arrive in Syria yesterday after a trip to Libya.

Differences between Iraq and its Arab enemies are still at the heart of the summit in Cairo in August, when 15 of the 21 League members demanded an Iraqi withdrawal and agreed to send Arab troops to defend Saudi Arabia.

Prince Saud, speaking during a surprise visit to the United Arab Emirates, said: "It is necessary for Iraq to announce its agreement on the Cairo summit decisions and

(UN) resolutions." But Mr Taha Yassin Ramadan, the Iraqi first deputy prime minister sent to Morocco by President Saddam Hussein, said the proposed meeting should "wipe off the resolutions of the infamous Cairo summit".

The two camps also differ on the issue of "linkage". Mr Saddam wants a solution to the Gulf crisis to be linked to the Arab-Israeli conflict, but the Gulf states want him to withdraw from Kuwait unconditionally, immediately, and completely, leaving the Palestinian problem until later.

President Saddam, meanwhile, has removed his relative Mr Ali Hassan al-Majid as governor of Kuwait and replaced him with Mr Aziz Saleh al-Nouma, another senior Baath party official.

It is thought that Mr al-Majid far from being discredited, will return to his job as minister of local government after ruthlessly suppressing the Kuwaiti resistance.

He was governor of Kurdistan when Iraqi forces used poisoned gas to kill hundreds of people in Halabja during the Gulf war in 1988.

## Italy's former premier joins hostage bid

SENATOR Amintore Fanfani, the 82-year-old former Italian prime minister, looks set to join the list of retired European political thoroughbreds who have visited Baghdad this autumn to secure the release of hostages, John Wyles reports from Rome.

Having received an appeal from the families of the 300 or so Italians being held in Iraq, Mr Fanfani has said he is ready to carry their appeal to President Saddam Hussein.

The Italian government, in the shape of Mr Claudio Lenzi, an under-secretary at the Foreign Ministry, has stated that it will not put any obstacles in the senator's way.

This stance is bound to cause some grumbling among Italy's European Community partners as it marks a further breach of last month's Rome summit that the Twelve would not send official emissaries to Baghdad to plead for hostages.

But it has become increasingly difficult to hold the line after the recent mission by Sir Willy Brandt, the former West German chancellor, achieved the release of 17 Italians and passed off without opposition from Baghdad.

Active campaigning by hostages and families have led many ministers to wish Mr Fanfani every success.

amount to about \$20bn following the decision by the US and G7 states to forgive debts of about \$14bn.

Egypt's total foreign obligations, including arrears and military debt, exceeded \$50bn before the Gulf crisis helped bring about a dramatic change in its fortunes.

The IMF and Western creditors have been urging Egypt to take advantage of its good luck to press ahead with an adventurous reform programme that would include over-

haul of its monetary system. Egyptian officials say they have reached broad agreement on a new market-driven exchange rate regime, a more competitive interest rate structure and greater reliance on the sale of treasury bills as an instrument of monetary policy.

The IMF has long urged an overhaul of Egypt's exchange and interest rate systems to inject greater life

## Israel's tourist boom turns to bust

Efrat Shvily on the effect recent events have had on a vital industry



Dome of the Rock: type of monument that draws tourists

THIS YEAR began as one of recovery for Israeli tourism, which had seen a two-year slump because of the Palestinian uprising.

But by the end of October only two tourists sat by the pool of Tel Aviv's four-star Dan Panorama. Sixty of the 112 rooms stood vacant, underlining what is now openly admitted to be Israel's worst tourism crisis.

Visitor entries to the end of June totalled 641,200, 10 per cent higher than in 1989. But Saddam Hussein's invasion of Kuwait on August 2, his repeated threats to attack Israel and an associated rise in travel costs led to a 21 per cent drop in September visitors compared with the previous year.

October figures showed a drop of at least 43 per cent. With economic pressure building over the problem of absorbing thousands of Soviet Jewish immigrants, tourism was seen as a mainstay of development.

A vital source of foreign currency to help offset rising import bills, tourism last year earned \$1.8bn - against industrial exports of \$7bn - and provided a living for some 60,000 households.

For as long as the Gulf crisis continues, however - 3,000

hotel employees have been dismissed in the past three months - tourism will be an economic problem, not a solution.

On October 1, the government announced mass distribution of gas masks to counter fears of an Iraqi chemical attack.

On October 8, 15 Palestinians were shot dead in riots on Jerusalem's Temple Mount. On the same day, the US State Department warned Americans

against visiting the territories occupied by Israel.

For the first time the warning included east Jerusalem where the main Jewish, Moslem and Christian holy sites - the city's biggest tourist draws - are located.

About a fifth of tourists are US citizens. Europe accounts for most of the rest. A large proportion are drawn by the immense historic and religious heritage of the Holy Land, but

In recent years the Red Sea resort of Eilat has become a top destination.

The events of October led to mass cancellations. Almost all charter flights to Eilat were stopped until further notice.

El Al, the national carrier, saw revenues slide by \$10m in October and reduced flights by 30 per cent.

The situation right now is extremely tough, but the depth of the crisis is a function of its duration," says Mr Michael Federman, president of Israel's Hotel Association.

The Tourism Ministry, which already regards the usually busy winter season as "lost", is preparing for the crisis to last at least until next summer.

It is to allocate funds originally destined for a March 1991 foreign marketing campaign to October instead.

Until there is a recovery, the Hotel Association is willing to consider the use of one and two-star hotels facing financial difficulties as temporary housing for Soviet immigrants.

A Finance Ministry plan to extend VAT to the tourism sector is also likely to be dropped. Other possible steps include rescheduling hotel debts and an urgent appeal to world Jewry to visit, regardless of the threat of war.

The IMF envisages a phasing out of the central bank pool. In the meantime, regulations would be enacted to prevent more than a 5 per cent differential in the central bank rate and that prevailing in the free market.

Western officials say they have been pleasantly surprised by an apparent new Egyptian willingness to accept the need for market-oriented reforms.

## ADVERTISEMENT

### FOCUS ON SOUTH AFRICA - 1990 ONWARDS

## TRANSNET - "WE MEAN BUSINESS"

### Africa has increasingly looked to Transnet for help

When Africa turned its back on South Africa in the early 1960s, Transnet, the South African transport giant, continued to play a leading role on the continent. It's a role that it still plays today.

In spite of all the political hurdles that sprang up at every turn, Africa fully appreciated that transport - especially road and rail - was essential to develop and maintain its infrastructure, its import and export routes and its links with neighbouring countries and the world.

So, Africa increasingly looked to Transnet for assistance. Thus an informal policy of transport diplomacy evolved - a phenomenon operating outside the narrow constraints of politics, supported by sound business principles. Its subsequent growth was to prove that countries with conflicting ideologies can work together without compromising their beliefs.

BARRY LESSING, chief executive of Transnet's Spoornet arm, elaborates:

"It's one of life's realities that transport and trade are inseparable partners in the wellbeing of any nation. It's something that the countries of southern Africa realise only too well.

"Regrettably, civil unrest and deteriorating economies in many of these countries have given rise to severe problems, characterised partly by an inability to maintain and efficiently operate a transport infrastructure. It is here that Transnet has rendered an invaluable service to South Africa's neighbours."

Mr Lessing points out that member countries of SADC (the Southern African Development and Economic Co-ordinating Council) are mostly landlocked. Mozambique and Angola are the exceptions.

"Transnet has business agreements with seven of the nine SADC countries for handling exports destined for foreign markets. South Africa's harbours are not used to exploit its landlocked neighbours (as has often been claimed) but to render them a service based on fundamental economic principles.

"In addition, our railway system - by far the most developed on the sub-continent - guarantees speedy and efficient deliveries of both exported and imported goods."

In 1987/88, South Africa accounted for 75 per cent of southern Africa's gross slow goods product and for two-thirds of its exports. It provided 50 per cent of its landlocked neighbours' imports and handled 15 per cent of their visible exports.

During the same period, the then South African Railways handled more than 3.6 million tonnes of goods for South Africa's neighbours.

At any one time, there are, on average, 8,000 units of Transnet rolling stock on the lines of other railways in southern Africa, representing a replacement value of R700 million.

And Transnet's business arrangements with South Africa's neighbours don't stop there. It leases locomotives, aircraft equipment and parts, provides technical advice and helps in areas such as maintenance of all modes of transport systems and infrastructure.

Nor has Transnet been found wanting in times of emergency. Engineers have assisted with the reconstruction of flood-damaged bridges, while trucks and trains have been supplied for emergency food shipments.

Gifts, however, are not the matter from which prosperity is derived - which is why co-operation between Transnet and the railways of South Africa's neighbouring states is governed by sound business principles.

Mr Lessing explains: "Payment is rendered for all services and assistance furnished by Transnet in terms of business agreements with most of southern Africa's railway authorities. This means that each country is enabled to improve its own service and standards through its own efforts.

"Sustaining power, self-respect and independence remain intact and when results are positive, there is a genuine sense of achievement.

"Because assistance is only given when asked, the issue of paternalism doesn't arise. Professionalism and the willingness to share on a business basis is the underlying principle.

"I firmly believe there's no future in making other countries' railways dependent on Transnet. As our neighbours develop more efficient transport systems, they'll inevitably become economically stronger because of the increased trade that will be stimulated throughout the region.

"This will have a multiplier effect which will keep on creating a heightened demand for goods and transport. Everyone involved will benefit."

Many countries of southern Africa (including South Africa) are on the threshold of extensive internal change. In much the same way, Transnet has changed from a regular passenger to a deregulated company. Its motto: "WE MEAN BUSINESS."

As these changes evolve, there's every chance that transport arrangements in Africa will flourish, with Transnet playing an even more meaningful role in the continent's transport network.

### Transnet now evaluated on free enterprise criteria

Transnet, until recently South African Railways and Harbours, has been reorganised.

It may continue to operate in the same spheres of the economy as formerly but it has systematically embarked on a path which will forever change its character.

The name change is but a small part of a transformation which has seen the organisation evolve from 80 years as a parastatal into a corporate entity operating in an environment which evaluates pricing and performance on traditional free enterprise criteria.

Transnet now has an official mandate to become competitive within the political and economic reality of a rapidly changing South Africa.

The new Transnet comprises five autonomous business divisions - Spoornet (the railways), Portnet (the harbours), Airnet (road transport), Pipetnet (petroleum pipelines) and South African Airways. All sell transport products to domestic and international markets.

Also an integral part of the group are 19 business units including Infocast, Transnet Catering and Horticulture, which market their services within the company, offering Transnet strategic support.

Transnet may not have been operating long (since April 1 1990) in its present guise. Yet already it is delivering added value to the South African economy, while its export capacity is exerting a significant positive influence on the country's productivity.

And Transnet is helping South Africa to fight inflation by keeping price increases well below the inflation rate. Further, it is boosting the nation's export drive by reducing tariffs for exporters.

Transnet management is confident it can approach the future with vision, adaptability and a sense of competitiveness, using transport technology and enhanced productivity as building blocks for the years that lie ahead.

Transnet's turnover last year was R104 billion, and was achieved using assets with a book value of R14 billion. Replacing its fixed assets alone would cost about R65 billion. This excludes its 154,000 hectares of land, which would cover the combined municipal areas of Johannesburg and Pretoria and much of Durban's, too.

Such figures, however, do not really indicate Transnet's physical importance. When, in 1910, it took over the facilities of the railways in the Cape and Natal colonies and the Free State and Transvaal republics, it acquired 12,000 route-kilometres of track. Subsequent expansion of the network saw that figure doubled.

Within 10 years of the establishment of Johannesburg in 1886, the Witwatersrand had become the main driving force behind the country's economic expansion. Without rail facilities to bring in equipment and other supplies, it would soon have ground to a halt. Nor would agriculture and minerals exploitation have developed elsewhere in the interior had rail facilities not been built to carry their products to harbours for subsequent export.

Transnet also pioneered, or put onto a sound commercial footing, other forms of transport. Having formed South African Airways in the early 1930s, it took over the financially strapped Union Airways in 1934. And its ownership of steam ships from 1919 onwards paved the way for Sarmarine to own and operate ships between South Africa and other continents.

All enquiries to:- GROUP MANAGER (Public Relations) TRANSNET LIMITED, P.O. Box 72501, Parkview, South Africa 2122. Tel: (Johannesburg) 488-7100 or 488-7109. Fax: (Johannesburg) 488-7125



## UK NEWS

## Ridley launches fresh attack on European union

By John Mason

MR NICHOLAS Ridley, the former Trade and Industry Secretary, yesterday told the House of Commons that a single European currency would increase economic and political tensions and threaten to break up the European Community.

Speaking during the debate on the Queen's Speech, which last week set out the government's legislative programme for the next Parliamentary session, Mr Ridley insisted that Mrs Margaret Thatcher, the Prime Minister, was "absolutely right", both in style and substance, to oppose the imposition of a single currency. "It leads to discontent. It leads to political tension. It leads to nationalist parties and in the end it leads to break-up," he said.

Speaking the day after Sir Geoffrey Howe's resignation statement, he also refuted the former chancellor of the exchequer's suggestion that a "middle way" existed to resolve the issue.

Mr Ridley, who resigned in the summer after his controversial attack on the Delors proposals for monetary union, insisted that whoever con-

trolled the currency also controlled the government.

A single currency would be unable to cope with economic divergence between the stronger and weaker nations and regions within the EC, he said.

Weaker nations trying to improve their competitiveness would be unable to do so by adjusting interest rates while it was asking the impossible for them to lower wage rates. The alternative would be a regional policy giving grants on an unprecedented scale. However, such a policy had never been very successful in the past.

A single currency would therefore lead to economic and political strain in the face of such divergence. The disintegration of the Soviet empire was one example of such strains. It was not in the interests of any EC member states to support a single currency.

In an uncompromising endorsement of Mrs Thatcher's stance, he added: "The prime minister is absolutely right to be firm about a single currency. She should seek to persuade the other 11 of the mistake they are making."

Editorial Comment, Page 22

## Shake-up of telecoms welcomed

Paul Abrahams and Andrew Taylor on reaction to government plans

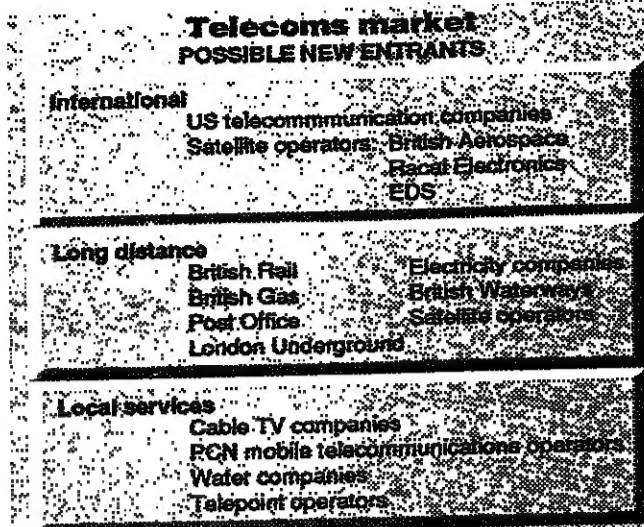
REACTION to the British government's far-reaching green paper on telecommunications remained positive yesterday, as specialists had more time to study the document closely.

In the most significant review of the industry since the privatisation of British Telecom in 1984, the government intends to increase competition on local, trunk and international services. It is also planning to break the duopoly of fixed-link services enjoyed by BT and Mercury Communications.

British Rail believes it is one of the companies best set to take advantage of the proposals since it already has a large fibre-optic network laid along its tracks for its own use. It presently provides Mercury Communications with about 50 per cent of its trunk cable network.

British Rail Telecommunications, which was set up in September, says it is negotiating with a number of potential private sector partners with the intention of setting up a joint venture. The company, which is unable to use public money for telecommunications projects under the government's consultative document, is looking for between £200m and £400m to invest in the sector.

"Through the document we have received everything we wanted and more," said Mr Peter Borer, managing director of BR Telecommunications. "We will be one of the few concerns able fully to take advantage of the liberalisation. Our network is already in place, unlike many businesses which may well find the capital costs of setting up a network prohibitive."



as cellular operators and telepoint companies. He says the BR Telecommunications also plans to offer services to private corporations.

Although some of these services could be available only a few months after a licence is issued, most would be operational in three to five years time.

The Post Office, which earlier this year announced plans to sell excess capacity on its private network to business users, said: "Our general

understanding is that we can spare capacity under existing powers but we will be looking with interest at the details of the consultative paper."

Among the mobile operators, Sir Ernest Harrison, chairman of Rascal Telecom, said the paper would provide new opportunities for both Rascal Telecom and Rascal Network Services.

British Aerospace which has expended its business interests in recent years to include satellite communication services said it was delighted with the proposals which it said gave a clear indication of the government's intentions to move towards a deregulated market.

The cable television operators, which will be given permission to provide voice services under the proposals, have also welcomed the green paper.

United Artists Cable International, which has seven franchises with the potential to serve nearly 1.5m households, said the cable industry could play a significant role in the creation of choice for consumers through local telephone services.

## Fear in US of reduced competition

By Martin Dickson in New York

"AT&T, this is Tammy. How can I give you excellent service?" This is the kind of consumer-friendly, if somewhat cloying, opening line you get in the US if you ring one of the large, long-distance telephone companies with a problem.

For anyone more used to the curt tones of a British Telecom operative, it comes as a pleasant surprise. But that said, consumer groups in the US are worried that a new consolidation in the long-distance telephone industry and a revised method of price regulation by the Federal Communications Commission may now be significantly reducing price competition.

The benefits to the US consumer of the 1984 break-up of the Bell telephone system go beyond glossy public relations. The price of long-distance calls has fallen sharply, and subscribers also benefit from cut-throat marketing of new services to win their business.

While local US telephone companies enjoy regulated monopolies, the break-up of the Bell system created fierce competition, out of which emerged three industry leaders: AT&T, the original monopoly supplier, which now has about two thirds of the



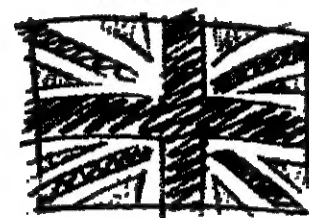
US call: "excellent service" market, MCI, with some 16 per cent, and US Sprint, with some 10 per cent. The rest is divided between several hundred small companies.

The newcomers initially attacked the AT&T franchise by offering cheaper prices.

But lately, prices have been stabilising, or even increasing, and with the industry leaders offering broadly similar products, they have been relying on marketing and advertising to win market share.

The big three are also involved in an expensive negative advertising war, with AT&T trying to capitalise on its traditional reputation for quality and suggesting that its opponents do not deliver all they promise, either in price or service.

## BRITAIN IN BRIEF



### Bomb suspect extradited to London

Mr Desmond Ellis, wanted in connection with terrorist offences, has been flown to Britain from Dublin after an appeal against extradition was dismissed by the Irish Supreme Court.

Mr Ellis, who has been on hunger strike, is the first Irish nationalist in recent history to be extradited from Ireland to mainland Britain.

He was taken to Bow street court in London and remanded in custody charged with having explosives and with conspiracy to cause explosions. The charges relate to bombings in Britain in the early 1980s.

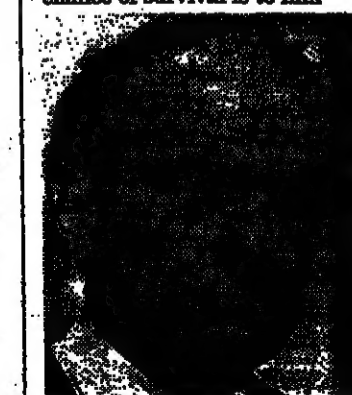
In a separate development, three detectives involved in the investigation of the 1974 Guildford and Woolwich pub bombings are to be prosecuted for conspiracy to pervert the course of justice.

The so-called Guildford Four were set free by the Court of Appeal in October 1989 after serving 15 years of their life sentences for alleged involvement in the bombings in which seven people died.

### Correspondent woos Today

The Sunday Correspondent has approached Mr Rupert Murdoch's News International with a proposal to merge with Today.

The loss-making Sunday newspaper has decided its best chance of survival is to link



Rupert Murdoch: open-minded on merger plan

with a daily newspaper which has no related Sunday publication.

Both loss-making papers would cut costs by sharing one building as part of a seven-day operation.

### Britain 'needed' in Europe

The "very special" British contribution to a united Europe is needed now more than ever, German president Richard von Weizsäcker said in Coventry, central England. "We Europeans are given a chance of a new beginning unprecedented in history," he said at a service of reconciliation at Coventry Cathedral to mark the 50th anniversary of the Blitz.

### Welsh group in joint venture

The Gooding Group, a Welsh electronics concern, is to link with Sanken Electric, leading Japanese manufacturer of power-electronics equipment, to produce transformers and switch-mode power supplies. Gooding Sanken will build a plant north of Cardiff, South Wales, costing between £5m and £10m which will employ about 500 people.

### 7m register for electricity shares

More than seven million people have registered to buy shares in the 12 regional electricity companies, said Mr John Wakeham, energy secretary.

Mr Wakeham was speaking ahead of a deadline at midnight last night, after which registrants would forfeit



John Wakeham: 'delighted' at response to offer

their right to incentives in the share sale, due to start next Wednesday.

Last minute registrations were still pouring in as Mr Wakeham was visiting the Bristol-based share information office.

### Union Carbide attacked

Environmentalists attacked the environmental record of Union Carbide, US chemicals group, claiming it is a major generator of toxic substances.

The attack was made at a press conference in a London hotel where Mr Bob Barok, Union Carbide's director of corporate communications, was due to address a seminar on corporate responsibility and how to sustain environmental excellence. However, Mr Barok cancelled his appearance at the seminar.

### Satellite TV profits warning

Investors in British Sky Broadcasting, the newly-merged satellite television company, were warned not to assume the company was now on a smooth road to profit.

"Even if the satellite market accelerates to 120,000 units a month, it seems unlikely that B-Sky-B can break even before the end of 1992," says the report.

### Extra runway 'a necessity'

An extra airport runway in the London area has become "an absolute necessity" if disruptions in British air transport are to be avoided, the Air Transport Users Committee warned in a submission to Mr Geddi Parkinson, transport secretary.

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## UK NEWS

## Marketing men seek to restyle Conservatism

By Ralph Atkins

THE MARKETING team behind Mr Michael Heseltine has five days to create a brand of Conservatism which can outsell a tried-and-tested model of 11 years' standing.

Mr Heseltine spent four years on the back benches honing his personal manifesto.

Now he faces the most important week in his political life selling it to Conservative MPs at Westminster and trying to convince a majority in the parliamentary party that his prescription makes a change of leadership worthwhile.

The broad themes on which he will take on Mrs Margaret Thatcher were struck in a series of press and television interviews yesterday. His programme is about extending Thatcherism rather than redefining Conservatism.

Europe was no surprise, given the turbulent debate within the party that foreshadowed his candidacy. But the second strand – a review of the poll tax – could be more effective in swinging MPs to join the 100 he claims have

backed his candidacy.

His weakness could be logistical. So far he has relied at Westminster on just two faithful lieutenants – Dr Keith Simpson, the MP for Leeds North West and Mr Michael Mates, the member for Hampshire East. Neither has experience of government office. Ranged against them is a campaign team run by the prime minister by four former cabinet ministers.

The appeal on the community charge correctly, and shrewdly, recognises a deeply felt anxiety at Westminster over local government that continues to rumble, despite the shift of attention to Europe and the economy.

Mr Heseltine's undertaking to "review" local government finance is a calculated appeal to the many Conservative MPs who have slender majorities in northern constituencies.

Mr Heseltine has carefully avoided alienating supporters by setting out in much detail his preferred system of local government finance. But the



Mrs Heseltine (right) wishes her husband luck yesterday as he leaves their London home

"fallback position" – reducing poll tax bills by transferring education budgets to central government – plays on the concern of both Labour and the Conservatives to raise education on the political agenda.

With results of opinion polls on the party. The debate on Europe is splitting the party asunder, his aides will argue. The younger, pro-Europe generation and vital industrial and

switch allegiance in the privacy of the voting booth. Personal ambition or genuine dissatisfaction are both motives. Mr Heseltine will be looking for an acceleration in the bandwagon effect he has built-up.

A selling point is the former defence secretary's style of leadership. He was regarded in Cabinet as a minister who sought the opinion of others.

Should no candidate manage to get 51 per cent or more at that point, the contest goes to

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## ELECTION RULES

## Short campaign to decide leadership

By Richard Evans

NOW that the Conservative party leadership contest is confirmed, the battle will be brutally short. Although the vote will be conducted under the revised rules laid down in late 1974 by a committee under Lord Home, a former prime minister, the timetable has been curtailed.

The deadline for nominations closes at noon today, and the result of the first ballot will be announced next Tuesday. If a second ballot is required, it will be held on November 27.

To win in the first round, a candidate must obtain an overall majority among Conservative MPs and win 15 per cent more votes than any other candidate.

That would require a minimum of 186 votes, with a margin of 56 votes more than the nearest challenger.

If no candidate achieves both these targets and a second ballot is necessary, other candidates may come forward, and only an overall majority of votes is then needed.

Should no candidate manage to get 51 per cent or more at that point, the contest goes to

a third and final round, with the three highest placed in the second round participating.

Conservative MPs then have to mark their preferences for the three candidates in order, and the winner emerges from a single transferable vote.

The system was last used a year ago, when Mrs Thatcher easily defeated the "talking horse" candidate, Sir Anthony Meyer MP, on the first ballot by 314 to 33, with 24 spoilt papers and three abstentions.

A much more dramatic contest took place the first time the revised system was used, however. That was when Mr Edward Heath, defeated in the general election of October 1974, faced such a barrage of criticism that he was forced to ask Lord Home, formerly Sir Alec Douglas-Home, to draw up a revised set of rules for the election of the party leader.

He accepted the new rules and announced that the first ballot would be held on February 4 1975. Mrs Thatcher, who had been education secretary, was the first to declare herself a candidate.

## Sterling tremors in unsteady markets as Tory quake rumbles on

Rachel Johnson finds dealers uneasy about the prospects for the economy of a concerted leadership challenge to the prime minister

LONDON'S financial markets, already weak with recession, took a turn for the worse with yesterday's confirmation of a leadership challenge to the prime minister.

The political rift in the Tory party has opened up at a time when it looks as though the economy has gone over a cliff," said one economist.

As markets abhor uncertainty about as much as nature abhors a vacuum, dealers were yesterday predicting sterling would drop at least two pence a week until the crisis has been resolved.

Sterling spent most of yesterday below DM2.90, a level at which traders reported the Bank of England had been buying pounds in an unsuccessful attempt to arrest its decline.

This downwards drift may

not last long enough for Britain's exporters and industrialists, who have complained about the high central rate of DM2.95 at which the government took sterling into the ERM.

But it will certainly be too long for the Treasury, for which a strong pound is a main plank of monetary policy and a weak pound costly to defend – something it is committed to do if sterling slips too far within the ERM.

On the foreign exchanges, and in the Treasury and Bank of England, the next fortnight will be one of nail-biting tension.

For the financial markets appear to have decided that a change of leadership will be bad for the pound.

The markets' first preference seems to be for a decisive win

for Mrs Thatcher, as this is the outcome that would go down best overseas.

The pound still possesses what is known as the "Thatcher premium," something of an anachronism, given the current domestic climate of high inflation, stagnant growth and political upheaval.

But the premium remains bolstered by the UK's high interest rates, and traders were yesterday continuing to observe, as one did, that "if you go to New York, the only politician they've heard of over there is Mrs T."

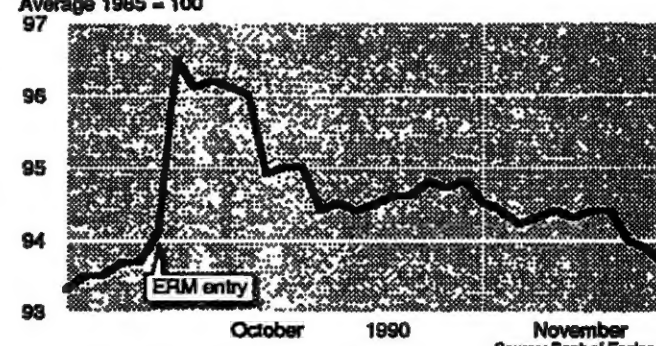
Second-best would be a less-than-decise Thatcher victory. The markets reckon that going to the polls with the same prime minister, even one with a lame duck label, would give the Tories a better chance of winning the next general election

against the background of a possible Gulf war.

Mr Avinash Persaud, economist at UBS Phillips and Drew, explained that the growing anxiety that the Tories should

### Sterling Index

Average 1985 = 100



Source: Bank of England

win, derives from the stigma attached to the Labour party. "A Labour government is sterling, bond and equity-negative," he said.

A victory for Mr Michael

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A victory for Mr Michael

Heseltine, or Mr Douglas Hurd, trails a distant third. However, before yesterday's developments, Mr Heseltine's Euro-credentials had left the markets quite cheery in contemplation of his leadership. This was on the grounds that he would be quicker off the mark on European economic and monetary union than Mrs Thatcher.

But these European goals, with their deadlines stretching from 1994 into the next century, are now seeming much less immediate than the UK election, due to be held by June 1992 at the latest. Nor has Mr Heseltine's stock been helped by rumours doing the rounds yesterday that he would devalue the pound if he won.

Although the markets have discounted a lot of damage to sterling, it still has several

plagues to fall before the authorities have to take serious action to shore it up.

With sterling facing a wobbly fortnight, the Bank of England is confronting sessions of heavy intervention or even having to raise interest rates as sterling approaches its floor in the ERM.

A rate rise is an option which the markets consider will be taken only in extremis, as it would fly in the face of anecdotal and statistical evidence that the UK economy is in the middle of the third deepest recession since the second world war.

But it remains an option which threatens the Treasury's hopes to cut base rates to 12 per cent by the end of the year and begin stimulating the economy out of its slump and into a pre-election boomlet.

Political crises in the Tory party have been responsible for the worst bouts of currency weakness in recent years.

These include the introduction of the poll tax last April, and the resignation of Mr Nigel Lawson over European policy in October 1989.

What marks out this sterling crisis as different is the ERM. Before the UK joined, sterling could go into a free-fall.

Now, the authorities have observed that instead of the Bank of England buying sterling to push it up past key chart points when it weakens, the markets do it instead.

The latest political rift shows how the process of topping up sterling's Thatcher premium with ERM medicine has begun. World Stock Markets, Back Page Section II

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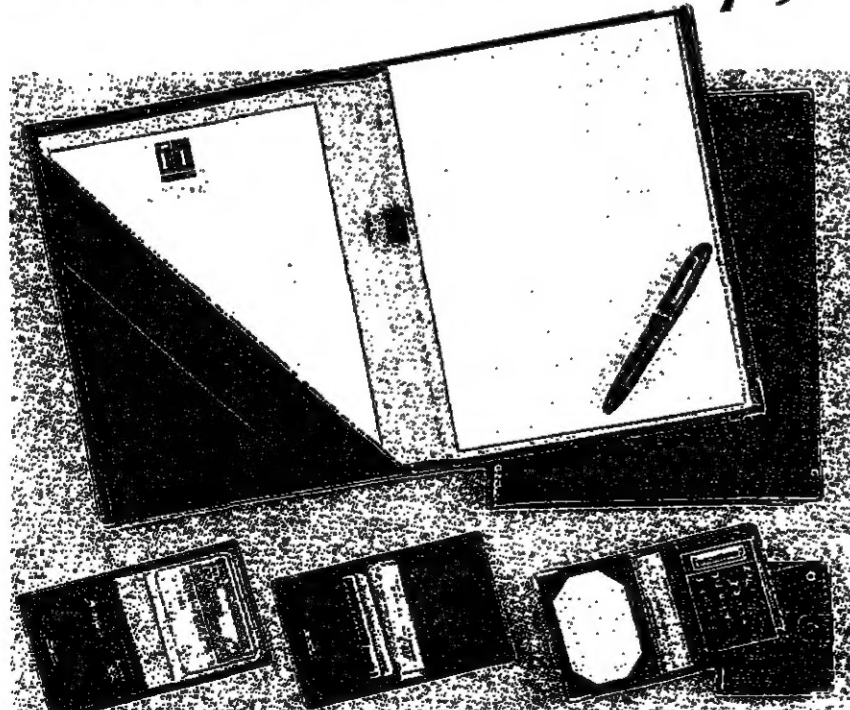
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## INDUSTRIAL REACTION

## Political uncertainty worries business

By Michael Cassell, Business Correspondent

BRITISH INDUSTRIALISTS yesterday appeared less worried about the identity of their prime minister a week from now than that the issue should be conclusively resolved.

Company executives did not want to be drawn into publicly aligning themselves with the prime minister, Mr Michael Heseltine or any other possible candidate, but there was almost a universal agreement that the present political uncertainty should be ended with the minimum delay.

Support for the government's past economic strategy remains strong but industry's present problems have clearly tended to diminish its achievements in the eyes of many business leaders.

The government, under Mrs Thatcher's guidance, is blamed for keeping interest rates too high for too long and several company heads echo former industry prime minister, Sir Geoffrey Howe's criticism of Mrs Thatcher for preventing Britain from joining the ERM at a much earlier date.

Several business leaders expect a Heseltine government to adopt an instinctively more constructive tone than Mrs Thatcher over Europe, although they found difficulty in specifying those policy areas on which the two differed.

Industry has barely started to consider what it could expect under a government led by Mr Heseltine, whose cabinet career was confined to the

Environment and Defence departments. In some respects, his creed in respect of the framework of relationships between government and industry appears more closely aligned to current thinking in the Labour party than that of recent Department of Trade and Industry ministers.

The leadership challenge is, inevitably, best remembered for his period at the Department of the Environment, where he laid great emphasis on the potential for public and private sectors to work together to regenerate the inner cities.

But Mr Heseltine has repeatedly made it clear that the revival of Britain's manufacturing base is the key to its

future success and that any government has a strategic role to play in the process.

Under Mr Heseltine, the government would, he pledges, also play a greater role in assisting and co-ordinating national bids for major overseas contracts.

In terms reminiscent of the opposition Labour party's repeated condemnations, he has criticised Britain's comparatively low level of expenditure on research and development and training and has said that the government has a role to play in reversing the trend.

He has made it clear, however, that the problem should not be tackled with a "cavalier, throw-money-at-it" abandon.

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## US REACTION

## Threat to Thatcher shocks Americans

By Peter Riddell, US Editor, in Washington

THE CHALLENGE to Mrs Thatcher's leadership, and her possible political demise, is a profound shock for most Americans, who are watching in the US that it would almost be like Sir Winston Churchill losing the 1945 general election.

Her departure could have wide-ranging effects on US attitudes towards Britain.

The challenge, moreover, comes at a time when Mrs Thatcher's stock at the White House is at its high point of the Bush presidency. He regards her as his most loyal and stalwart European ally in the Gulf crisis.

Until yesterday most Americans did not know Mrs Thatcher was in serious political trouble. There have been scattered press reports of her problems. Sir Geoffrey Howe's resignation caused a flutter of interest, and his Tuesday Commons speech was covered by the New York

Times and Washington Post. But it received just one paragraph in the US edition of the Wall Street Journal and no coverage at all on the evening ABC and CBS news bulletins.

That was changing yesterday after the challenge by Mr Heseltine who is completely unknown here. Mr Douglas Hurd, the foreign secretary, is known and increasingly respected by a few officials.

The irony is that earlier this year some US policymakers were becoming irritated with Mrs Thatcher, notably over her public reservations about German unification.

There was nothing of the warmth and intimacy of the Reagan-Thatcher relationship.

However, the Iraqi invasion of Kuwait on August 2 – and the coincidence of Mrs Thatcher being in Aspen with Mr Bush then – brought the two leaders closer

together.

Britain has been the most consistent European supporter of the US line and Mr Bush has repeatedly praised Mrs Thatcher in his public statements. At times there has been the fear that she has been too hawkish than Washington, notably last week when she appeared to be pressing for an earlier war than Mr Bush is willing to consider.

The worry for Washington is not that an alternative Conservative leader – whether Mr Heseltine or Mr Hurd – would pursue a different policy, but that their tone and style would be different. It is the manner of Mrs Thatcher's support, as well as the presence on the ground of the Desert Rats, that matters.

Her departure would raise questions in the US about the extent of European backing.

to replace Mrs Thatcher stems from any new enthusiasm for Brussels. "My feeling is that the European issue is his or her herring," said one cynical official. "The real reason they want to get rid of her is because of high interest rates and the poll tax."

Yet not everyone in Brussels is transfixed by events in London. One British eurocrat complained that his conversations with other nationals over a pint at the pub yesterday the student riots in France topped the bill – the names "Thatcher" and "Heseltine" were not even mentioned.

## EC REACTION

## Brussels sees no end to minority syndrome

By Tim Dickinson and Lucy Kellaway

NO ONE in Brussels is laying bets on the likely future of Mrs Thatcher in the leadership contest, but neither is anyone at the European Commission counting on an early end to the 11-to-1 syndrome – with Britain in a minority of one against its 11 fellow member nations.

"Everyone on the 13th floor (where the commissioners have their offices) is spell-bound by the drama, but it is totally impossible to say what will happen: whether she will go, and if she does, what the implications will be," said one official.

Mr Jacques Delors, the Commission president, is watching developments with particular interest. His verbal sparring with Mrs Thatcher has at times dominated the Community in recent years.

A year ago, Mr Delors was on top of the world, the 1992 project seemingly unstoppable, and a vision of economic and monetary union apparently close to reality.

More recently, however, he is reported to have become increasingly nervous about the growing isolation of the UK on some of the issues that are dearest to him, and worried

that his confrontation with the British prime minister could backfire.

On more mundane matters, the British position on EC issues is not expected to change much, even under a new leader. For years, UK diplomats in Brussels have built up a reputation for rigorous analysis of Brussels' daily business. Some officials expect that any movement at the top would be in style: the UK response would no longer be "not over my dead body," but "no, but".

Few believe that the desire



FINANCIAL TIMES SURVEY

FINLAND

Thursday November 15 1990

The economy: Is there a crisis or is it just a downturn? Page 2

"Don't rock the boat" leads to shallow political debate Page 4



An undercurrent of anxiety has disturbed the surface calm of a still affluent country. Finland's future in the 1990s seems bound up with western Europe's evolution. But the unpredictable problems now facing the Soviet Union will also have a big impact, writes Robert Taylor

# A view from the edge

UNDER THE surface calm of affluent Finland this winter lies a growing undercurrent of anxiety about the immediate future. The gloomy mood is not caused just by uncertainty about the new recession that has brought a rapid halt to more than a decade of strong economic growth.

Nor does it really arise from Finnish worries over the negotiations in Brussels on the creation of a European Economic Area (EEA) between the European Community and the European Free Trade Association on which Finland, more than any other EFTA country, still places misguided hope.

What really alarms the policy-makers is the unfolding of turbulent events inside Finland's giant neighbour - the Soviet Union. An increasing number of Finnish policy-makers believe it is heading inexorably towards catastrophe. The spectre is of more than half a million starving, desperate Russians trying to cross the still well-guarded 1,800km-long Soviet frontier into Finland this winter in search of food and warmth.

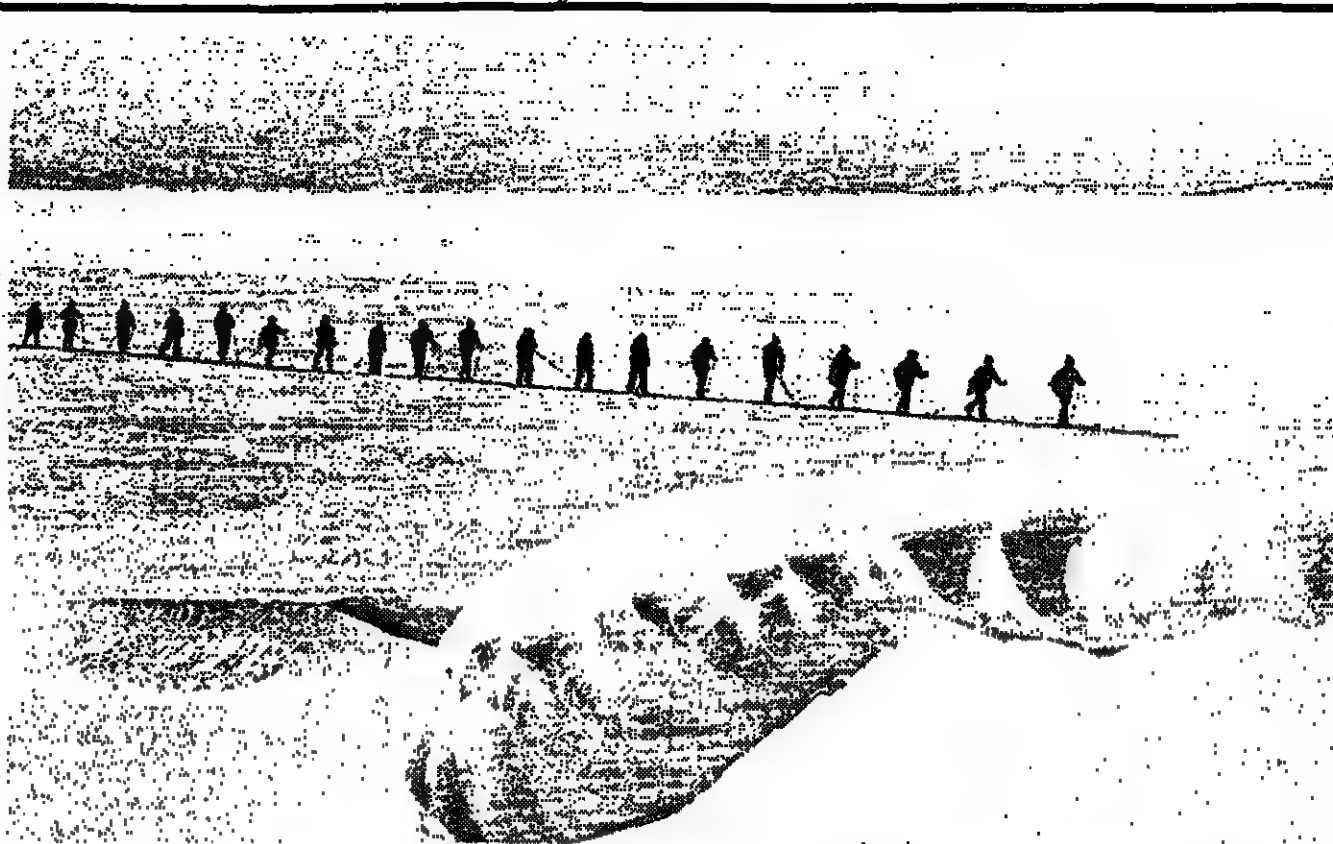
Conditions in eastern Karelia and in the Leningrad region are growing desperate by the

day. Many Finns travelling this autumn in the Soviet Union on business have returned with alarming reports about the collapse of social order in the struggle for sheer survival.

"It is growing increasingly difficult to find Finns who want to work on short-term contracts over there now," admits one senior industrialist. "There are whole districts in Moscow and Leningrad where law and order has completely broken down."

Last month Finland quietly began exporting meat and potatoes from its own reserves to help feed Russians living close to its border in eastern Karelia. The government is trying to convince other western countries that emergency aid from them may well be necessary as the winter goes on.

The prospect of the Soviet Union's disintegration fills most Finns with horror. Ever since achieving independence from Russia in 1917 a few months before the Bolshevik seizure of power, Finland has sought a *modus vivendi* with Moscow. "The cornerstones of our foreign policy is to have good relations with our neighbours," says Mr Pertti Paasio,



Winter in Lapland. This year will thousands of starving, desperate Russians try to cross the frontier into Finland?

Finland's foreign minister. Post-war Finland developed a special relationship with the Soviet Union of mutual advantage. Over the years the Finns enjoyed a much more beneficial economic tie-up with the Soviet Union than any forged between Moscow and its satellite states in eastern Europe.

The 1948 Soviet-Finnish treaty of friendship created a bilateral clearing house trading system between the two countries in which Soviet oil and gas was exported to Finland in return for Finnish consumer products. The highly formalised structure cushioned Finland from the uncertainties of energy prices and provided its less efficient shipbuilding, textile and shoe-making companies with a guaranteed and undiscriminating market for their goods.

The trade arrangement became a guarantee of security and continuity for much of Finnish industry. As recently as 1988, 21.5 per cent of Finnish

total exports went east. But since the arrival of perestroika and glasnost the old certainties of Soviet-Finnish trade have vanished. "The golden age has definitely gone," argues Katarina Koivu-maa of the Institute of International Affairs. "It was a period of overheated prosperity which was too good to be true."

Many Finnish employers admit they liked the old system. At least they knew whom they were doing business with in the Soviet Union, and deals they entered into were honoured to the letter. Now they often do not know who makes decisions on the Soviet side and many complain they are not being paid on time. It has recently been estimated that Soviet companies owe as much as FM7bn to their Finnish customers for orders received.

The Soviet government has announced it wants to end the bilateral clearing house system and replace it with a normal trade arrangement financed

through convertible currencies. But a recent survey of Finnish companies carried out by the country's Institute of International Affairs found nearly half the enterprises interviewed said they disliked the idea of the old arrangements coming to an end.

The most opposed to change are companies in the textile and clothing industry but there is resistance also in the metal and food-processing sectors. By contrast, employers in transport and wood processing take a more positive attitude.

The Finnish authorities favour a transition period to move from the existing closed trade system to an open one. Many companies support what they call a "mixed" arrangement which links the benefits of the clearing house structure with the freedom of a convertible currency based trade.

Mr Max Jacobson, a former Finnish diplomat, warned recently that the decline in the authority of the Soviet state

and the underdeveloped nature of the Soviet banking system are making it impossible to secure sufficient counter-guarantees to underpin Finnish trade carried out in hard currencies with the Soviet Union.

The proportion of Finland's total exports now going east has fallen to around 10 per cent. Many Finnish policy-makers believe their country's trade to the east - already suffering from the curb on Soviet oil and gas exports - could fall to a mere trickle if the traditional system is abolished.

Hope of a more commercial kind of economic relationship between Finland and the Soviet Union has hardly yet become a reality. Only a handful of the 260 or so joint ventures signed in recent years between Finnish companies and Soviet enterprises are actually in operation. Discussion last winter about the creation of a free economic zone between Finland and the Viborg area of Soviet Karelia

has hardly got beyond the talking stage. The Kola peninsula environmental project is still little more than a promise.

Anxieties in Finland about the Soviet Union have begun to focus public attention increasingly on the forging of closer ties with western Europe. Indeed, Finnish public opinion appears to be moving more rapidly than that of the politicians towards support for Finland's membership of the European Community. A Gallup poll published earlier this summer found 60 per cent favoured Finnish membership of the EC and only 13 per cent actually opposed the idea.

Such feelings have not led Finland's coalition government to warm towards the prospect of EC membership. When Sweden's ruling Social Democrats announced recently that they wanted their country eventually to join the EC, their decision aroused anger in Helsinki.

As the foreign minister argues, the creation of the EEA between the EC and EFTA countries in Finnish eyes still remains "an optional alternative" to EC membership. "If there is too much speculation about other alternatives it will disturb the atmosphere of our present negotiations with the EC," he adds. "We are trying to stay on the train for the EEA."

We don't want to stand on the cold platform waiting for the next train."

Mr Paasio defines Finnish foreign policy as "pragmatism without rhetoric". It is rooted in a deep caution and a suspicion of any threatened change to the so-called Paasiviki-Kekkonen line of non-alignment that has conditioned Finnish official attitudes to the outside world since the country's 1944 defeat as Hitler's ally by the Red Army.

It is true that earlier this autumn the Finnish government unilaterally abandoned clauses of the 1947 Treaty of Paris that limited the size of Finland's armed forces and restricted relations with Germany but this was a belated recognition that the transformation of Europe over the past 12 months has rendered much of the post-war diplomatic settlement obsolete. For the most part, the Finnish approach to foreign policy has yet to be modified in any significant

IN THIS SURVEY

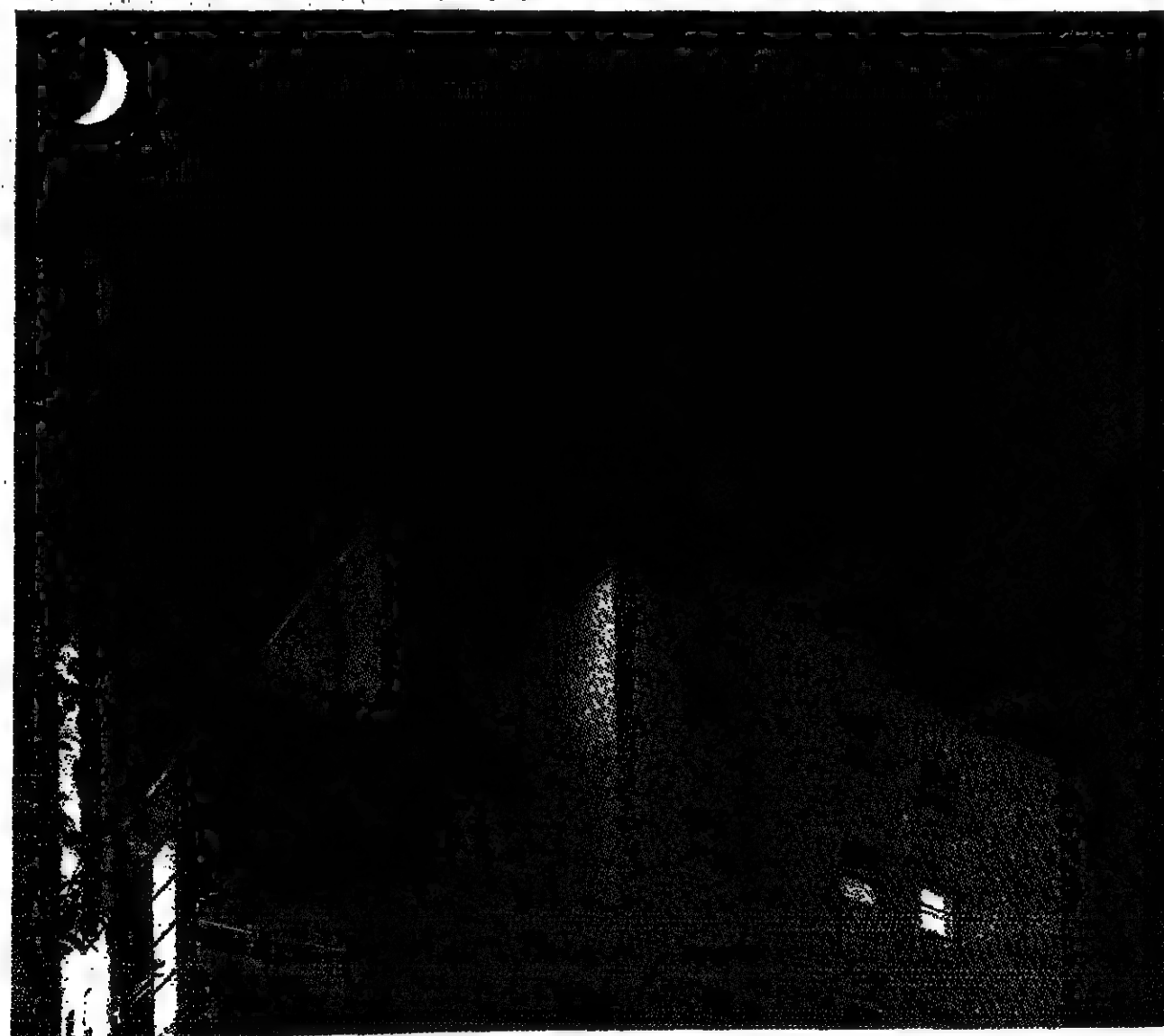
The economy: decade of growth comes to an end  
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way in response to the changes that followed the demolition of the Berlin wall.

Mr Paasio Lippinen, head of the country's Institute for International Affairs, warns: "Finland runs the risk of isolation. We can't just sit here and watch the developments going on in Europe as a mere spectator." He believes: "We will have to join the EC. It is really just a question of time before we do." But for Mr Paasio and other policy-makers it remains more important for Finland to take a leading part in the so-called Helsinki process - the Conference on Security and Co-operation in Europe (CSCE) which comes up for review at a conference scheduled for 1992 in the Finnish capital.

The Finnish government favours the creation of a permanent CSCE secretariat as a centre for conflict control in Europe with annual summit conferences of member states. "We need to widen our concept of security," insists Mr Paasio. "Is it old-fashioned to be neutral? If you define it as a pattern of civilised and impartial behaviour, then it retains credibility. Indeed, the whole of Europe may well in that sense soon become neutral as well."

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## FINLAND 2

A crisis or just a downturn? asks Robert Taylor

## Now the economy catches a cold

THE Finnish economy has moved into recession after a decade of phenomenal growth averaging nearly 4 per cent a year. But how deep its troubles will go and for how long remains unclear. Earlier this autumn Moody's Investor Service cut Finland's credit rating from AAA to AAF, reflecting the gathering gloom among forecasters about the country's immediate economic prospects.

During the 1980s Finland enjoyed one of the fastest economic expansions in the western world; now it threatens to limp along below the average performers.

As the Kansallis Banking Group noted in its latest economic outlook: "The party is over." Mr Antti Suvanto of the Bank of Finland admits: "It had to happen one day. It is difficult to adjust to stagnation. We had too much luck for too long a time. We face an inevitable and necessary period to rectify the imbalances in the economy."

The question is whether the country can escape with a soft landing or must prepare for something much worse. This will depend partly on what happens to the world economy as a result of Iraqi President Saddam Hussein's invasion of Kuwait but also on the success of the government's economic policy.

"Every day I ask myself the question: are we in a crisis or not?" says Mr Matti Louekoski, Finland's finance minister. "If you look just at unemployment, inflation and trade figures then the answer is No. But the economy is going down quickly now. I believe we are moving into a crisis."

Mr Suvanto at the Bank of Finland is more cautious. "We are not heading for a crisis," he avers. "But we can expect to have two difficult years of low growth."

Mr Pentti Vartiainen at the Research Institute of the Finnish Economy (ETLA) is more pessimistic. "We have had to put the brakes on," he says. "Consumption was growing much too rapidly. High interest rates of up to 14 per cent are hitting household consumption and housing investment has slumped."

The Ministry of Finance in its latest economic survey underlined the deterioration

Finland can expect through 1991. The growth rate is set to fall to no more than 0.5 per cent after an increase of 2.5 per cent this year and rises of 5.4 per cent and 5.2 per cent in 1988 and 1989 respectively.

Unemployment is set to grow from around 3.5 per cent this year to between 4.5-5.0 per cent over the next 12 months. National disposable income is expected to fall by 1.5 per cent in 1991.

Consumer prices are set to rise by around 5.5 per cent next year compared with 6.0 per cent in 1990.

Next year's current account deficit is forecast to rise to Fm26.5bn, 4.5 per cent of the

per cent of Finland's industry was operating at full capacity.

Mr Louekoski is determined to at least try and stabilise the economic deterioration.

Domestic demand is to be restrained with a shift in productive resources.

A continuation of a tight incomes policy is seen as vital for the government. "We must have discipline over wage increases," insists Mr Louekoski.

The current two-year national incomes agreement provides for a 4.5 per cent rise in real purchasing power between 1989 and 1991.

Last year 3.5 per cent of that was paid out but next year's no more than 1 per cent has yet to be agreed. Mr Louekoski would like to see a rise as near to zero as possible for 1991 with the main boost to living standards coming from tax cuts.

Efforts are to be made to raise Finland's saving ratio. The government will encourage this by a final withholding tax to be applied to the taxation of interest incomes.

The exemption of long-term deposits from taxation will continue.

Government expenditure growth is to be contained through a belated move to curb



President Mauno Koivisto and Soviet President Gorbachev in Helsinki earlier this year

the spending of local authorities, part of which at the moment is reimbursed by the central administration.

With a spring general election on the horizon, the political pressures for a more relaxed approach to economic management have grown more difficult to resist.

The 1991 budget is going to be more expansive than Mr Louekoski's original intention with a 4.0 per cent growth in real terms in expenditure,

amounting to around 1.3 per cent of GDP, mainly because of demands from within the coalition for higher social expenditure with improvements in old age pensions, home care for the old and sick and a reprieve for post offices due to close in remote rural areas.

Mr Louekoski insists devaluing the markka is no answer to his current headaches. "You never do that in a downturn," he says. "You don't do it if you cannot control prices. Devaluation

is not a suitable instrument now." In fact, as Mr Vartiainen at ETLA points out, Finland is still more difficult in resolving its present economic problems because it now operates in the global financial system. The devaluation of the country's financial markets - in line with developments elsewhere in the Nordic region - will force Finland to carry through a strategy of fiscal austerity if it hopes to reduce its foreign debt.

## The candid views of Britain's ambassador

## Strains on the structure

MR Neil Smith, the British ambassador to Finland since earlier this year, is no stranger to the country. Married to a Finnish woman, he has spent at least a month every year there for the past 30 years and he served as commercial councillor in the embassy in Helsinki from 1977 to 1980. His long acquaintance with the country provides him with greater insight into how Finland has developed since 1960 than probably any other Englishman.

It is an old tradition in the British diplomatic service that incoming ambassadors send a formal dispatch back to London giving their first impressions of the country to which they are accredited after three months of arrival in their new post. No doubt, Mr Smith's contribution was able to benefit from his long memories of an evolving Finland. Earlier this year he gave the flavour of his first impressions as ambassador in a speech to the Finnish-British trade association.

During his period of visiting Finland the country has changed fundamentally. Mr Smith recalled a car journey made as a young man in 1960 to his wife's parents' home in northern Karelia. "Many roads were still unsurfaced with deep and dangerous potholes and I firmly followed the contours of the landscape," he said. "At the brow of each hill the road apparently disappeared. The

farmers of northern Karelia and many other parts of Finland rarely had electricity, certainly had no car or television, had probably never been out of Finland and had possibly never even visited Helsinki."

By 1977, when he was commercial councillor, he remembered: "Not only were the roads greatly improved and the farmers had new houses with electricity, but they also had a car and colour television and were enjoying state-supported holidays, sometimes out of the country." He added: "Today I find concrete bridges have replaced the road transport ferries, that many of the farmers I visited earlier have been bought out of farming by the state and that golf courses have proliferated on former farming land."

His impressions are confirmed by statistics he quoted. In 1960 over 18 per cent of Finns worked on the land but by 1980 the figure was down to 5 per cent. Over the same time those employed in the service sector rose steadily from 29 to 37 per cent. As Mr Smith argued: "Finland has achieved in the last 30 to 40 years what Britain and other industrialised countries have taken over a century and a quarter to achieve - the transition from a largely agricultural to a largely service economy."

But it is during the 1980s that change in the Finnish economy was substantial in

spite of worries about structural obsolescence. Mr Smith recalled that at the end of the 1970s the outlook for the forestry and paper industries was dismal and it looked as though the computer would bring the paperless society. "All the forecasts turned out to be wrong," he said. "The computer brought about the biggest boom papermakers have ever known."

"There were those who feared Finland was becoming too heavily dependent on the Soviet Union," added Mr Smith, but over the past six years the Soviet share of Finnish exports has fallen from 36 per cent to 15 per cent and 67 per cent of all Finnish trade is now with western Europe. "European integration will consolidate this change," he said.

"With a GDP per capita 50 per cent higher than that of the UK, Finland is now one of the world's wealthiest countries and it shows," went on Mr Smith. "Finns are now enjoying the fruits of that wealth; in 1989 4.9m of them took 5.3m holidays outside Finland."

But the ambassador warned that such rapid change cannot be achieved without some strains on the structure of Finnish society. He suggested it was "rather more difficult now to achieve consensus than it used to be in industry or in politics." He saw more con-



Neil Smith, UK ambassador

fusion in politics while "the old spirit of Finland together against the rest seems not so strong as it was; personal ambition being much greater." Mr Smith added: "The pressures of expansion and competition are making it perhaps less easy for businessmen to discuss things together than they did in the past."

However, the remark that around the most controversy with his Finnish audience was his complaint about the high cost of air fares between Finland and Britain. He said he would do all he could as ambassador to see them reduced. But Mr Smith has another priority - to make the British more aware of Finland and help improve the trade balance between the two countries.

Robert Taylor

## DEREGULATION

## Curbs may be eased

RESTRICTIONS ON foreign capital continue to be the rule rather than the exception in Finland. But the need to generate capital to revive Helsinki's comatose stock market has encouraged some national industrial leaders to speak out against antiquated restrictions.

Even though the Helsinki Government has a favourable posture on foreign investment, the Restricting Act of 1939 continues to be an obstacle to foreign investment. The act says that foreigners may own only up to 20 per cent of a Finnish company and, with special permission, up to 40 per cent.

Not only are strict limits imposed on how much equity a foreigner may own but there are also implicit restrictions on industrial sectors in which a foreigner may not establish a company. These include forestry, mining, shipping, refining and securities trading.

Some two years ago, in a general atmosphere of financial liberalisation, foreign investors - and even Finns - were outraged when the government passed the Insurance Companies Act. Foreigners had been able to own 100 per cent of a Finnish insurance company, but this act limited their maximum stake to 40 per cent.

Mr Casimir Ehrnrooth, president of the powerful Confederation of Finnish Industries, argued that the law would harm Finland's image.

"I believe the law went in the wrong direction. It was a grave mistake because it got very diverse publicity and did not help to convince foreign investors about the seriousness of the Finnish Government," says Mr Ehrnrooth, whose wealthy family has large

stakes in Finnish industry.

Foreign investment has been small during the past decade. In 1989, it was only Fm1.39bn, while Finnish companies invested a record Fm1.79bn abroad. Finnish companies, apart from attempting to gain a foothold in the European Community, have been forced by high production and labour costs to invest greater sums of money outside their borders.

During the past years, large companies such as Hilti, Tammi and Nokia have not made any

major investments in Finland, but many outside the country. Finland has been criticised in the past for not being reciprocal enough - that it alone can buy up foreign companies without giving these countries the same rights to purchase Finnish companies.

Mr Timo Peltola, president of Hilti, a large confectionery, packaging and pharmaceutical group, was one of the first industrial leaders to speak out this autumn against these archaic restrictions. He argued that equity restrictions on Finnish companies have made them more indebted than western European companies.

"I have difficulties in understanding why we still continue to have restrictions (on foreign capital). We need more money to develop our industry and one way to get more capital is by opening the doors," Mr Peltola added.

However, opening up the Finnish economy will prove a legally complex and politically sensitive issue. Other factors which make it difficult to lift restrictions are the parliamentary elections next March and the outcome of EC-EFTA talks over the European Economic Area (EEA).

According to some analysts, restrictions on foreign investment have not helped anyone except to protect the large market shares which Finnish monopolies and oligopolies control over the market.

Mr Peltola believes that when restrictions on foreign ownership are lifted in the future, that could undermine the hold which banks have over industry. Nowhere in the Nordic region do banks have so large a control over industry as in Finland. Banks and insurance companies have also been largely responsible for illiquidity within the market.

The lifting of all restrictions on foreign ownership of Finnish industry could encourage greater liquidity.

Since September 1, 1990, the Bank of Finland has allowed the sale of derivative instruments based on Finnish shares and warrants to foreigners. And parliament is expected to approve the right of foreigners to own restricted shares through mutual funds. Parliament is also likely this autumn to pass a law which will allow foreign banks to establish branch offices in Finland.

Mr Ehrnrooth, like many other Finnish industrial and political leaders, is careful about giving an exact time over how and when restrictions over foreign investment will be lifted. The govern-



Timo Peltola, of Hilti

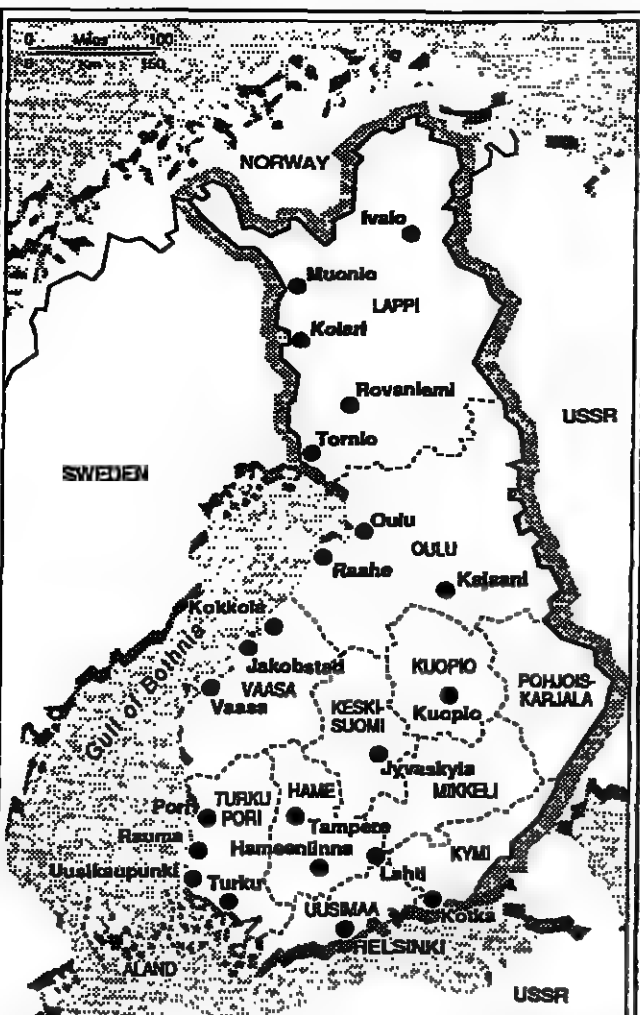
ment has appointed a committee to look into the Restricting Act. Its recommendations, which also hinge over what concessions the EC will give Helsinki under EEA, will be made public in June 1991.

It is also unclear how much capital would come to Finland if the country lifted restrictions over foreign ownership. While such industrial leaders as Mr Ehrnrooth and Mr Peltola are careful not to speculate on such a figure, Mr Satislav Rudenkov, vice president of the London-based Bankers Trust Company, believes that in good times Finland could attract as much as \$2bn a year in investment.

Mr Rudenkov argues that the close proximity of the Baltic republics and Leningrad offers good investment opportunities in Finland.

Apart from the major restructuring which Finnish industry will have to undergo to prepare for foreign competition, observers are optimistic that this will end up having a positive impact on some of the country's industrial sectors by making them more dynamic and less vulnerable.

Enrique Tessieri



Area ..... 338,000 sq km  
Population ..... 4,97m (1988 estimate)  
Average Exchange Rate ..... 1989 US\$1 = Fm4.22

ECONOMY	1988	1989
Total GDP (US\$bn)	105.3	115.0
Real GDP growth (%)	5.2	4.9
GDP per capita (US\$)	21270	23141
Main Components of GDP (%)		
Private Consumption	53.4	52.3
Gross Fixed Investment	24.7	27.1
Government Consumption	20.5	20.0
Exports	24.8	23.6
Imports	25.0	25.5
Current Acc't Balance (US\$bn)	-2.8	-5.1
Exports (US\$bn)	21.8	22.9
Imports (US\$bn)	20.7	23.1
Trade Balance (US\$bn)	1.1	-0.2
Main Trading Partners (% of total value): Exports		
USSR	14.5	14.5
Sweden	14.1	14.3
UK	13.0	12.0
EC	44.2	44.0
Main Trading Partners (% of total value): Imports		
West Germany	16.9	17.4
Sweden	13.3	13.6
USSR	12.1	11.4
EC	43.5	44.7
Consumer prices (% rise pa)	5.0	6.6
Industrial wages (% ch pa)	5.2	8.7
Unemployment (% of lab force)	4.5	3.5
Public external debt (US\$bn)	6.2	6.2
Total reserves - gold (US\$bn)	6.4	5.1
M1 growth rate (% pa)	16.1	12.8

Sources: IMF, Datastream, Economist Intelligence Unit

# LOHJA AND WARTSILA MERGE TO FORM METRA<sup>\*)</sup>

Lohja Corporation and Wartsila Group will merge at the beginning of 1991 to form a single international industrial group called Metra.

The new Group will mainly comprise a diversified building-related industry and a diesel engine division. Metra will include such well-known brand names as Wartsila diesel engines, VingCard hotel locks, Lohja building materials and EVAC vacuum sewage systems. It will have production plants in Europe, the USA and the Far East and will occupy a leading position in several of its key business areas.

## Metra

John Stenbergin ranta 2  
00530 Helsinki, Finland  
Tel. +358 0 709 51  
Fax. +358 0 735 496

Lohja Building Materials, Abloy Security, Sanitec, Wartsila Diesel, Lohja Caravans, Electronics, Cimcorp

<sup>\*)</sup> Proposal to an extraordinary shareholders' meeting of Lohja Corporation to be held in December 1990.



FINLAND 3

INDUSTRY

# A glimpse of 1992

THIS YEAR Finns had a glimpse of the far-reaching changes which 1992 will foster within Finnish industry. A stark warning when Metsä-Serla, the country's third largest forest group, surprised everyone in January by attempting a hostile takeover of United Paper Mills (UPM), Finland's No 4 forest group.

The Metsä-Serla move speeded up the birth of Repola, a forest, engineering and plastic packaging group.

After a pitched battle by UPM's main owners - Kanselä, Oskari-Pankki (KOP), one of the country's largest commercial banks - Metsä-Serla ended up paying FM2.3bn for a 36 per cent stake within UPM.

Difficult negotiations with KOP followed and, finally agreeing to a 25 per cent stake within Repola, Metsä-Serla gave its blessing last June to the birth of Finland's largest quoted company.

met and Rautaruukki are state-owned while Kone, a lifts and cranes group, is owned by the wealthy Herlin family.

Mr Kankaanpää believes that Wärtsilä Marine's fall from grace also had a negative impact on the metals sector. Valmet was 30 per cent owner of the now-defunct shipbuilding company.

The Valmet president also believes that privatisation of state-owned companies should continue even further in the following years. Apart from the negative effects of a strong market over national companies like Valmet, illiquidity of the market has also been a major cause for concern.

## The market's illiquidity has been a major cause for concern

"I believe that after the March (parliamentary) elections, the government will draw up some general guidelines over privatisation," says Mr Kankaanpää. "I think the government may gradually relinquish its majority stake within state-owned companies and with a minority stake it could take part in the development of the Valmet group."

Finland's agricultural sector, which is also on the verge of a dramatic shake-up and is preparing for a significant drop in farm support and greater competition after 1992, has forced Valmet's tractor division to look for new markets such as in Portugal where this month it set up a large tractor plant.

Considering that a global recession and a downturn in the forest industry have directly affected the performance of Finnish forest and metals groups, analysts keenly await 1991 to see which of these companies will end up being merged.

Repola is made up by the merger of Rauma-Repola, a large forest and engineering group, and UPM. Repola's consolidated net sales are expected to reach 6bn.

Just like Repola, Metra, a building materials, diesel and electronics group, will become operational at the start of 1991. Metra, however, was created in more tragic circumstances, between Lohja and Wärtsilä, whose marine division, one of Europe's largest shipyards, filed for bankruptcy last year.

Rather more than 80 per cent of Finland's export earnings of FM59.8bn in 1989 were generated from its timber industry (40 per cent) and metals industry (43 per cent). Significant falls in pre-tax profits of large Finnish companies during this year in the face of 1992 have placed greater pressure on them to find more practical ways of consolidating and increasing market shares and volume while rationalising investment costs.

Mr Matti Kankaanpää, president of Valmet, a state-owned paper machinery and engineering group, believes that the ownership structure of the Finnish metals industry is one important reason why this sector has seen fewer mergers than has been the case within the forest sector.

The country's top three metals groups, Outokumpu, Val-

over a quarter of UPM for little more than the cost of a single paper machine."

However, legislation restricts foreign companies from establishing themselves in key sectors of the Finnish economy such as forestry, mining and refining and hostile takeovers by foreigners are impossible. Since high-voting restricted shares are well-guarded and in friendly hands, it is even difficult for a Finnish company to mount an aggressive takeover.

Unlike the other Scandinavian countries, Finnish banks have a powerful grip on industry. Complex networks of control spread through foundations, insurance and holding companies. It is not unusual for a Finn to refer to a company by the sphere of influence to which it belongs.

But analysts believe that when relations between foreign ownership are lifted, this will have a positive effect on liquidity within the market at the expense of these banks.

With 1992 approaching and uncertainty over the outcome of talks between the EC and EFTA over the European Economic Area becoming more acute, Finnish companies have also been investing large sums of money abroad while planning their future strategies, which certainly include forming mergers and alliances.

According to some unofficial estimates, Finnish companies are expected to invest even greater sums of money outside Finland in 1990 than last year's sum of FM11.7bn, which was 48 per cent higher than in 1989. Mr Tauno Matomäki, president of Repola, also believes that internationalisation places pressure on Finnish companies to merge and form bigger conglomerates. According to some analysts, the number of forest groups within Finland will drop in the next few years from around 11 to three or four large ones.

Mr Matomäki feels that the forest industry is already well ahead of the restructuring game, while the metals industry lags behind in this development. "But if we look at the business directory of (metals) industry in the year 2000, the list will certainly be much shorter," he concludes.

Enrique Tessieri

NOKIA, Finland's largest private company, went through a period of uncertainty after the suicide of its charismatic chairman and chief executive, Mr Kari Kairamo, in January 1989. But at a time when most of Finnish industry is bracing itself for leaner times, it looks in much better shape than most to do more than just survive.

Its results for the first eight months of this year showed a FM659m operating profit, compared with FM482m for the same period of 1989. For the year as a whole Nokia forecasts its profits performance will be in line with last year's total of FM978m.

The company continues to have a diverse range of interests, mainly covering consumer electronics, mobile phones, telecommunications, cables and machinery, and information technology but also with limited activity in tyre production, chemicals and power generation.

Its six business sectors are experiencing mixed results at the moment. Market demand remains surprisingly high for Nokia's consumer electronics products as well as for its mobile phone sales and telecommunications. This has helped to offset the company's continuing troubles with Nokia Data - its information tech-

Robert Taylor profiles the country's largest private company

# Nokia's European thrust

Mr Kairamo's single-minded drive into western Europe has transformed Nokia from just the largest Finnish private group into a transnational corporation. Some 70 per cent of net sales now come from overseas activities with half the

phones with Tandy of the US and the French company Matra, making itself a world leader. In 1984 Nokia moved into consumer electronics through the purchase of Swedish Luxor and Finnish Salora colour television companies.

## Demand for consumer electronics products remains high

company's 37,000 employees working outside Finland and production facilities in 15 of the 33 countries where Nokia operates. The head office for its consumer electronics division is based in Geneva with cables and machinery run from Lausanne and data equipment in Stockholm.

Under Mr Kairamo, Nokia made the conscious leap forward into the wider global market in the early 1980s through the creation of joint ventures in production and marketing of cellular mobile

phones with Tandy of the US and the French company Matra, making itself a world leader. In 1984 Nokia moved into consumer electronics through the purchase of Swedish Luxor and Finnish Salora colour television companies.

But it was in 1987 that the expansionary pace quickened with the acquisition of Oceanic, the French TV manufacturer and the creation of the pan-European digital cellular system standard with the French telecommunications group Alcatel and AEG of Germany. In December that year the company bought the television division of German Standard Elektrik Lorenz, turning Nokia into the third biggest European TV manufacturer behind Philips and Thomson.

This was followed in January 1988 by the purchase of the ailing data systems division of Ericsson, giving the company a commanding position in the Nordic market as the producer of computer terminals.

Mr Kairamo's legacy has taken time to absorb but the

company showed it was not just content to consolidate its position when last year it formed Europe's largest soft tissue production joint venture with James River of the US and the Italian Ferruzzi group, Montedison.

"Our acquisitions forced us to restructure," explains Mr Isokallio. In the spring of last year the company was decentralised and grouped into six independent business units under the financial control of Nokia's Helsinki corporate headquarters. The workforce has been shunned down since 1989 by 8,000 jobs while productivity per employee has improved significantly. Investment in research and development has been kept up despite business difficulties and Nokia has made moves to strengthen its financial position.

For his part, Mr Isokallio takes an optimistic view of the company's future, talking of its Finnish "fighting spirit". Thanks perhaps mainly to the foresight of Mr Kairamo, Nokia should thrive in the 1990s.

## RESTRUCTURING

# Metra set to make its mark

THE finishing touches are now being put to Finland's latest industrial holding group. At the start of next year Metra will make its appearance on the corporate landscape as the result of the merger between Wärtsilä, the diesel engine, securities and sanitary equipment manufacturer and the building and electronics group Lohja, writes Robert Taylor.

The new industrial conglomerate is expected to have initial net annual sales of FM10bn, with 65 per cent of them outside Finland and 19,000 employees, half working in production plants abroad.

The restructuring, which is one of the largest ever carried out in Finland, was first envisaged in the summer of 1989 but Metra's actual gestation period has taken much longer than either of the parent companies expected. This is mainly due to the delay enforced on the merger by the attempt of Wärtsilä's divested shipbuilding operation to acquire a guarantee covering disputed debts.

The shareholders of Wärtsilä and Lohja actually gave their approval for the planned merger last March but the question was only finally settled on October 11 when the dispute was abandoned.

Now Mr Georg Ehrnrooth, Metra's chief executive, and his colleagues can concentrate their energies on preparing the new company for its launch. Indeed, the actual merger process has been relatively trouble-free. "It has not been very difficult because there is really no overlapping in the business activities of the two companies," says Mr Christian Andersson, the company's executive vice president. "This is a merger of equals, not a takeover of one by the other."

However Wärtsilä and Lohja enjoy distinctively different corporate cultures and it is

going to take time for a new Metra identity to grow.

For its part, Wärtsilä has a strong global presence outside Finland with 85 per cent of its customers being foreign and half its 11,000 employees working abroad. It is an international leader in medium-speed diesel engine manufacture, and that makes up about 41 per cent of the business.

But Wärtsilä also makes bathroom and sanitary ware through its subsidiary Sanitec, which constitutes a further 20 per cent of its activities accounting for a sizeable chunk of the global market in vacuum sewage systems for planes, ships and trains. The third leg of the company rests on the production of access control and lock systems through its Abloy Security subsidiary which accounts for 23 per cent of Wärtsilä's activity.

The company through Cimcorp also supplies robot

systems, factory control systems and special machinery for factory automation with customers mainly in the auto, aerospace and electronics industries.

Nearly half the company's sales of FM6bn last year were to western Europe (30 per cent to the European Community and 19 per cent to Norway and Sweden) with 16 per cent in the home Finnish market, 11 per cent to the Soviet Union and 9 per cent to the US.

By contrast, Lohja is more domestic in its product areas with a heavy concentration on the manufacture of building materials and concrete which accounted for 72 per cent of the company's sales last year. But it also makes caravans and has an interest in electronics, though this is the weakest area of the business at the moment.

The new structure of what constitutes the Metra industrial holding group will be

decentralised through the creation of 10 self-sufficient divisions or business units, some of them wholly-owned subsidiaries. Metra intends to establish itself as a global company with a firm European power base. "Our focus will be western Europe," says Mr Andersson. "That is where we are going for acquisitions."

The headquarters of Wärtsilä Diesel were moved to Strasbourg this year as an indication of its wider interest while only last week Sanitec bought a majority stake in the French Allia group, which makes it the second largest producer of bathroom products in Europe. The company already has production plants in France, Holland and Germany.

Metra hopes to build on the product range that it has inherited from Wärtsilä and Lohja. "We aim to consolidate around our main business areas," says Mr Andersson. The publication of the company's strategy plan will give a stronger indication of how Metra sees its potential growth but it intends to give further evidence of the determination of Finnish industry to make its European mark in the 1990s.

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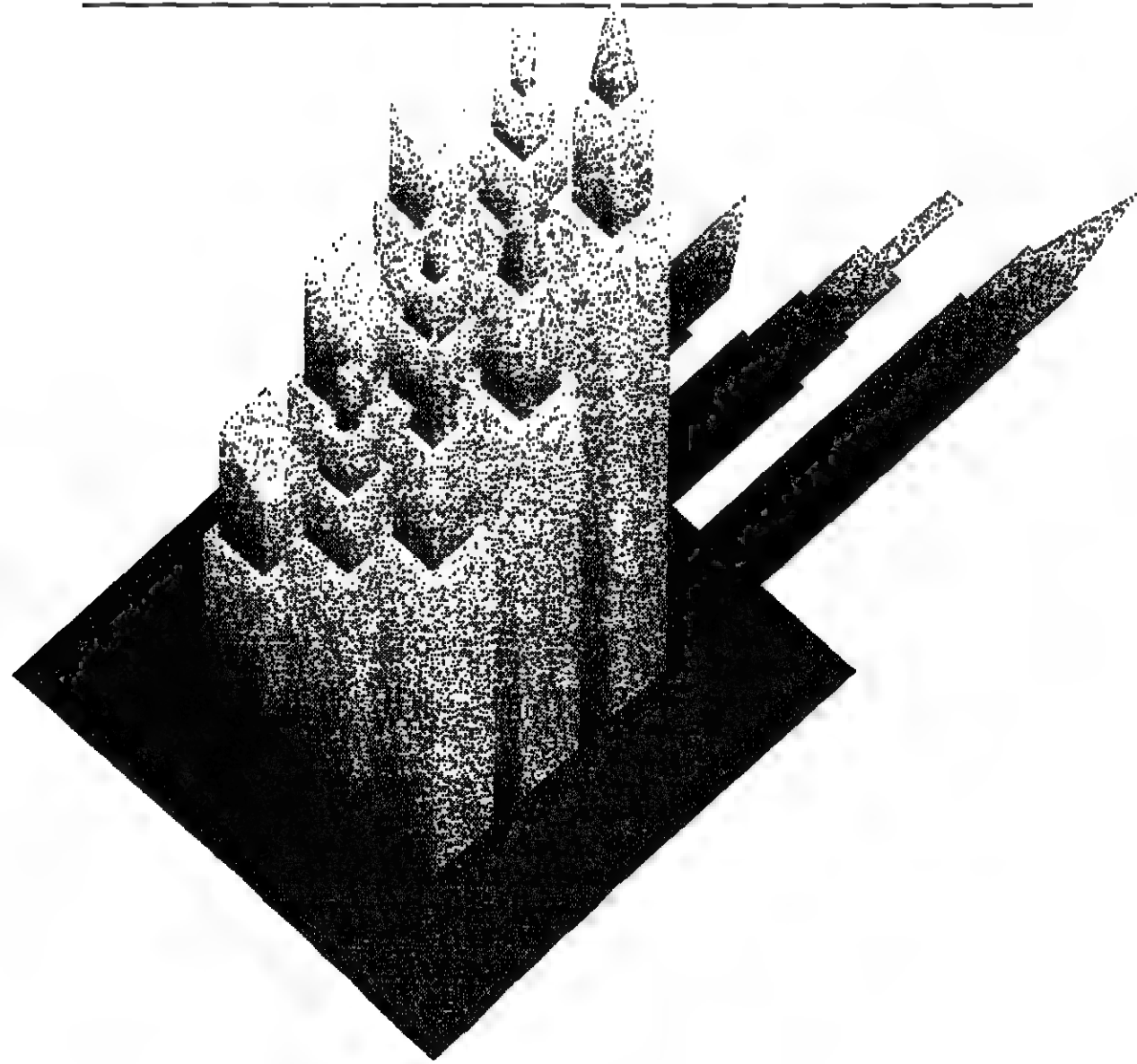
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## FINLAND 4

Robert Taylor argues for a wider look at the country's future

# "Don't rock the boat" leads to shallow political debate

FINLAND'S political scene looks outwardly the most placid in the Nordic region at the moment. A "grand coalition" of Conservatives and Social Democrats - under the premiership of Conservative Harri Holkeri - has governed the country with surprisingly little inner conflict since March 1987. It is quite possible that next March's general election result will confirm the government in power for a further four years.

Admittedly, there have been a few minor skirmishes. Tensions rose between the coalition partners earlier this autumn, for example over a difference of opinion about the restructuring of the shipbuilding industry. But at no moment has the coalition looked in danger of collapse.

The apparent lack of domestic controversy has already led many commentators to start speculating on who will be the likely runners for the country's next presidential contest when Mr Mauno Koivisto comes to the end of his second six-year term in February 1994.

## The ideological bite has suffered from the Communists' demise

No doubt, the Finnish calm reflects a genuine popular consensus, with no fundamental divisions in the country. The dramatic demise of the Communist Left (down to 7 per cent now compared with 13 per cent in 1977, which used to be relatively strong until a few years ago, has taken much of the ideological bite out of contemporary debate. The ruling Social Democrats have grown ever more pragmatic and favourable to the market economy while the Conservatives (known in Finland as the National Coalition party) - who had been out of office for 21 years - accept the need for a social dimension to their



Harri Holkeri, prime minister (left) and Mika Suominen

commitment in individualistic principles.

As the party's leader, Mr Mika Suominen, and also trade and industry minister, told visiting European right-wing leaders to a conference of the European Democratic Union in August, both Conservative and Social Democratic voters "are, in the regional and social senses, very close to each other". Most urban local authorities have been dominated by a coalition of the two for some time, particularly in the south and west of Finland. But Mr Suominen also insists that there remains what he calls an "ideological divide" between his party and the Social Democrats, though it has not been emphasised during their period in power. He stresses that the Conservatives have less interest in inflating the public sector, believe in "the best possible services at reasonable costs", freedom of choice in schools and the availability of alternatives in family policy.

However in the opinion of



Mr Pekka Kivela, the Conservative party's general secretary, the major ideological differences have become obscure in Finland, mainly because the Social Democrats have moved more decisively in a market economy direction and both coalition partners "are motivated by common goals related to our welfare society". "Practical means are the biggest field of contention in day-to-day politics," he says. No doubt, the two main coalition parties will find enough differences between themselves to reassure their supporters in next year's general election campaign, but these are unlikely to be serious enough to endanger the probability of the two of them continuing in office together for another four years. But in the view of one senior Finnish observer: "We have depoliticised our general elections."

"Our stability has produced good results," maintains Mr Kivela. "No dramatics have occurred. We have no reason for panic."

But then Finland's constitution makes it virtually impossible for any one party alone to govern the country, since the concept of multi-party government lies at the heart of the Finnish political system. It requires a two-thirds majority in the 200-strong parliament for any major piece of legislation to come into law while the proportional representation system encourages party fragmentation, ensuring there are nine parties in the present parliament.

However, there are always losers in Finnish politics. At the moment the Centre party is the main opposition. It has 40 seats and polled 17.6 per cent of the votes in the 1987 general election. The opinion polls currently suggest it will do much better than that in next year's contest but it seems doubtful whether the party can return to the levels of support it used to enjoy.

Historically the Centre has been the most dominant party in modern Finland and in coalition for most of the period

since independence in 1917. Its new leader, 36-year-old Mr Eero Aho, who was elected to the post earlier this year, argues that the Centre draws on two distinctive traditions - the defence of rural values and the advocacy of "social radicalism", which "live together" in the party.

The resulting blend of market economics and social justice often makes it hard to differentiate from the other two main parties but the Centre has a strong commitment to greater decentralisation and emphasises a belief in the value of small communities, regional diversity and small-scale private enterprise.

"We have a strong national identity," declares Mr Aho. The party remains faithful to the ideas and practice of its legendary leader, Urho Kekkonen, who held the presidency from 1956 to 1981. In its foreign policy the Centre still maintains "very close relations" with the Soviet Communist party and Mr Aho speaks warmly of the old alliance. "It is essential we support the Soviet Union in its reconstruction," he declares.

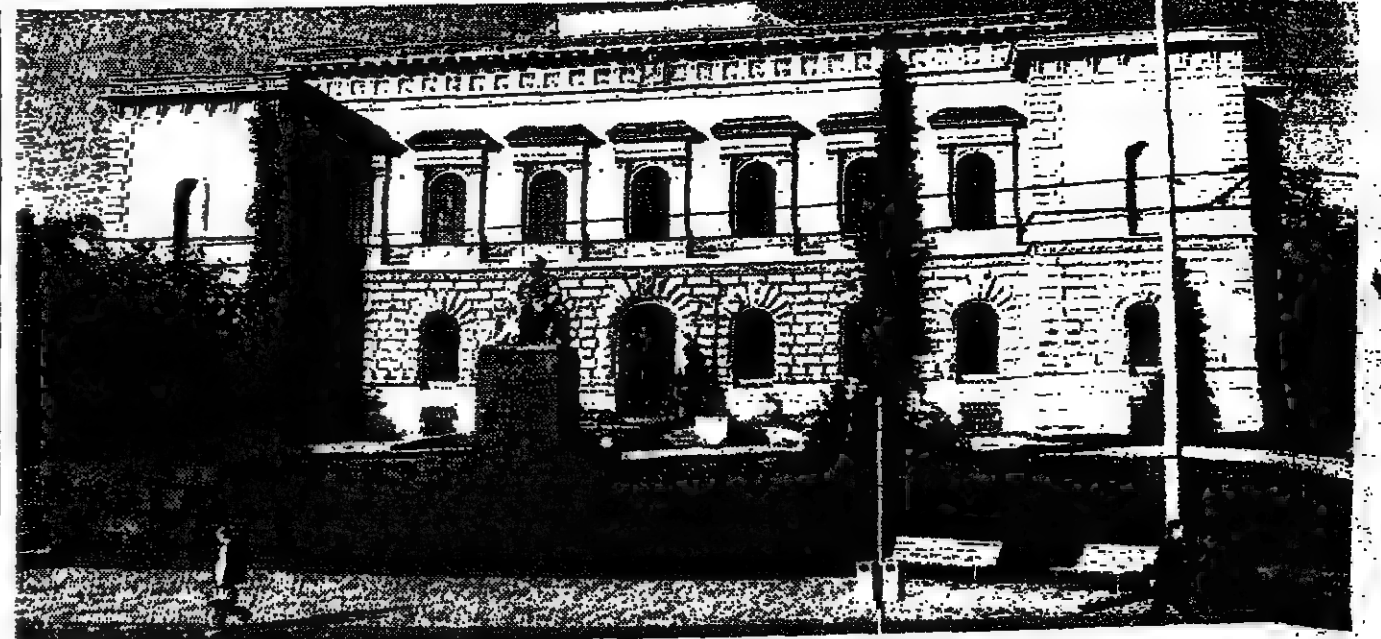
The placidity of Finnish politics stems from a deeply emotional desire in the country to uphold national unity above any other consideration. As a result, however, the public debate is much less rigorous and far-reaching than it ought to be at a critical moment in Finland's post-war history. But support for the Centre is not uncertainty to the east and worries about the country's future relations with western Europe, the main political parties are content to avoid division on the key issues.

## An emotional desire to uphold national unity above all else

Indeed, Finland's leaders can often give the impression they want as few serious questions as possible to be decided through the ballot box. "There is a strong tendency in this country to believe you should not rock the boat but keep it on an even keel," admits one senior observer.

As a result the perceptions of Finland's rather closed and slow-moving political world seem out of touch with today's changing public opinion. Next March's general election seems unlikely to offer the voters the clear choice they deserve because that is not the Finnish way and whoever governs in coalition for the following four years will be decided in horse-trading after the results are in.

This is a pity for what the country requires more than anything is less artificial political dog-fighting about personalities or narrow technical questions but a wide-ranging debate on its future. It looks as though the price of ensuring the consensus and compromise built into the Finnish political system has grown too much for its own good.



main photograph: Alan Harper

(Above) The Bank of Finland in Helsinki; (left) Jaakko Lassila, Kansallis-Osake-Pankki president and (right) Ahti Hirvonen, president of the Union Bank of Finland

## Financial services after 1992

# Upheaval on the way for a lot of banks



THE COMBINED eight-month pre-tax profits of Finland's five largest banks - Kansallis-Osake-Pankki (KOP), Union Bank of Finland (UBF), Skopbank, Okobank and state-owned Postipankki - have plunged by 34.3 per cent to Fm1.46bn from Fm2.22bn the previous year.

While Okobank, a co-operative bank, and Postipankki reported an improvement in their eight-month pre-tax results, simultaneously decreased their credit losses. Skopbank, a savings bank, was the first one this year to register a large loss - of Fm115.9m - in its eight-month pre-tax result against a profit of Fm404.9m the previous year.

Skopbank's poor result forced the Bank of Finland to intervene and support a rescue programme, which the savings bank will implement, to put it back on a better financial footing. Part of the losses which Skopbank incurred came from poor investments in the stock market. These four investments have forced the country's 160 savings banks to come up with Fm1.8bn to help bail Skopbank out of its troubles.

The sharp drop in share prices at the Helsinki Stock Exchange has also affected the share portfolios of other leading banks, including KOP and UBF.

Credit write-offs have also continued to grow, rising by 17 per cent during the first eight months of 1990 to Fm904.1m from Fm772.7m. Mr Peter Fagerlund, a KOP director, expects credit losses at all Finnish banks to rise over last year's level of Fm1.8bn.

The upheaval within the Finnish banking sector is very real. It is estimated that between 6,000 and 10,000 bank employees will end up losing

their jobs and as many as 500 branch offices will be closed in the following years.

But even if it is the aim of Finland's banks to prepare for greater competition, which the free market of capital will foster after 1992, analysts agree that the shake-up will have a positive effect on these banks: it will turn them into more profitable and dynamic institutions.

Both KOP and UBF, Finland's largest commercial banks, have already taken serious steps to cut overheads. Last month, UBF unveiled a plan to forge closer links with Finnish insurance companies.

## Thousands of bank employees will lose their jobs and 500 branch offices are set to close

Financial legislation at present prohibits an insurance company from owning more than 20 per cent of a Finnish bank, while a bank can own only 10 per cent of an insurance company. However, by forming a new parent company, which would be a financial services group, UBF and insurance companies could bypass these troublesome ownership restrictions.

The creation of a new financial services group, which would be called Unitas, currently a brokerage company owned by UBF, would help UBF save hundreds of millions of Finnish markkas annually, according to the bank.

UBF has also announced that as of January 1, 1991, the bank will be divided into two divisions: Yhtyspankki, which

will take care of domestic banking, and Union Bank of Finland International, which will run its international operations. KOP has also taken similar steps to restructure its organisation.

Even if closer ownership and co-operation links between banks and insurance companies are not far off, Mr Jaakko Lassila, KOP president, does not rule out the possibility of Finnish banks forming closer ties with their Scandinavian counterparts.

Mr Lassila, as well as Mr Ahti Hirvonen, president of UBF, rebuff speculation that their banks would end up merging in the future. Both agree that such a move would be unhealthy since it would leave Finland with only one large bank.

Contrary to other Scandinavian nations, Finnish banks - especially KOP and UBF - continue to have a powerful influence over the economy. Their ownership links within Finnish industry extend in complex networks through foundations, holding and insurance companies.

While Finnish banks are attempting to raise efficiency by lowering costs, Mr Matti Purasjoki, who heads the Office of Free Trade, believes that the lack of any real competition in some sectors of the Finnish economy like banking has had a more negative than positive effect. "This predicament (lack of competition) has distorted the market and made these banks fat and lazy," says Mr Purasjoki.

Finland is one of the most over-banked countries in the Nordic region. At the end of last year, there were no fewer than 550 commercial, savings and co-operative banks with a total of 3,489 branch offices to

serve a small population of just under five million, albeit spread out over a large geographic area.

The base rate is another relic of the protected and regulated days of Finnish banking and is costing banks a lot of money. Both Okobank and Skopbank caused an outcry from their clients this autumn when they unsuccessfully attempted to raise loans which were linked to 8.5 per cent base interest rates to Helsinki interbank offered rate (Helibor), which presently stands at around 14.5 per cent.

Mr Kai Suomela, a KOP first vice president, believes that the difference between the base and Helibor rates are serious problems for Finnish banks. The disparity between the base and Helibor rates is costing KOP hundreds of millions of marks in (interest) losses and for all Finnish banks this amounts to billions of marks in losses," he says.

## The disparity between base and Helibor rates "costs the banks billions of marks in losses"

Even if some Bank of Finland officials consider Mr Suomela's estimates to be on the high side, the proximity of parliamentary elections in March 1991 rules out any possibility of strapping the base rate for the time being. A parliamentary committee is now studying different models whereby the base rate would monitor more closely Helibor rates.

Enrique Tessieri

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## Repola to be Finland's largest quoted company Birth of a healthy giant

MR Tarmo Antero Matomäki, the new president of Repola, Finland's largest quoted company, has been exceptionally helpful to his employer. It was 23 years ago that he joined Rauma-Repola, a forestry and engineering group, and he has not changed employers once, writes Enrique Tessieri.

Repola, a forest, engineering and plastic packaging group formed by a merger between Rauma-Repola and United Paper Mills (UPM), a large forest group, is a direct copy of the Finnish economy, which receives the bulk of its export revenues from forestry and the metals industry.

Repola will comprise three divisions: UPM, which is expected to have net sales of \$3.7bn; Rauma, the group's metal and engineering division, which will generate \$2bn and a plastic packaging division, W. Rosenlew, with sales of \$500m.

The birth of Repola was planned long before Metsä-Serla, the country's third largest forest group, surprised everyone last January by attempting a hostile takeover of its rival UPM. After the dust settled, Metsä-Serla ended up spending Fm2.5bn for a roughly 30 per cent chunk of UPM. In exchange for a 25 per cent stake of Repola, Metsä-Serla gave its blessing to the merger. "I don't know, but it sounds odd and illogical that Metsä-Serla wanted to own only 30 per cent of UPM. But from an outsider's viewpoint, I would think that Metsä-Serla's goal was to become a majority shareholder with more than 50 per cent (of UPM)," explains Mr Matomäki.

The 53-year-old head of Repola, who holds a master of science degree in engineering, hints that Metsä-Serla's UPM move has brought to those days when Finnish industry was characterised by gentleman's agreements. Now it is every Finnish company for itself, he says.

Like other Nordic countries, Finland has been criticised in the past for having too restrictive laws against foreign investment and ownership of Finnish companies. However, as 1992 approaches, many of these restrictions are expected to disappear.

"We should start talking more on how to get more foreign investment to Finland rather than on how to restrict such investments. I have not excluded the future possibility of having a foreign partner (within Repola)," says Mr Matomäki.

Considering the size of the Finnish market, Repola is truly a giant - among very few giants. The conglomerate's 35,000 employees and an estimated \$2.2bn in annual sales put it ahead of Nokia, a consumer electronics group, which up to now was Finland's largest quoted company with net sales exceeding \$1bn in 1989.

Even if in Finnish terms Repola is an exceptionally large company, Mr Matomäki does not believe that it is too large to manage. He explains that size will give Repola strength. According to him, the general tendency of Finnish companies is to merge and form bigger industrial units. Repola's investments have grown in the last year, rising from just over Fm3bn in 1987

to Fm4.5bn in 1988 and Fm5bn in 1990. Mr Matomäki believes that his company could afford to cut this level of investments significantly.

According to the Repola chief, the recession which has hit the Finnish economy could last as long as three to four years. He feels no new investments will be necessary since UPM has already made significant investments in upgrading its paper machines and modernising equipment.

Mr Heikki Hakala, the future executive vice president of Repola, expects that UPM's SC paper production could expand in the future.

Repola, which will begin operations on January 2, 1991, will be one of the few Finnish companies which is quoted on the London Stock Exchange.

Mr Matomäki says that one of the positive characteristics of Repola is that there are no "sick or dying units," and that the company is made up of "healthy and modern units."

But the issue of generating capital within Helsinki's constant stock exchange is a source of future anxiety. Large Finnish companies such as Repola cannot depend only on the Helsinki exchange for their future capital needs.

Though Mr Matomäki believes that by the year 2000 the list of metal companies will have dwindled, he also forecasts real growth for Repola. "If a corporation can be managed in a healthy way there has to exist a bit of growth. If real growth is between 2 to 3 per cent and inflation is 5 per cent, total growth would be 7 to 8 per cent. That would be enough," he concludes.

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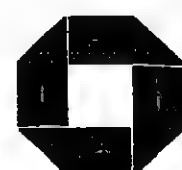
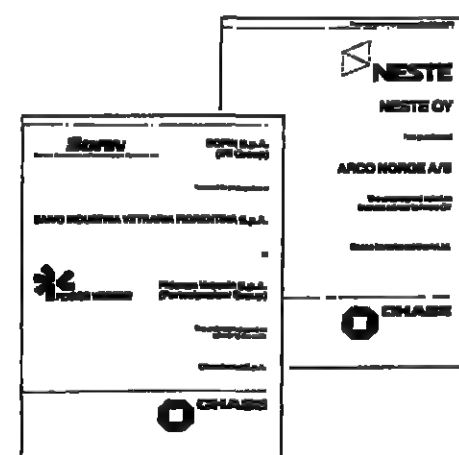
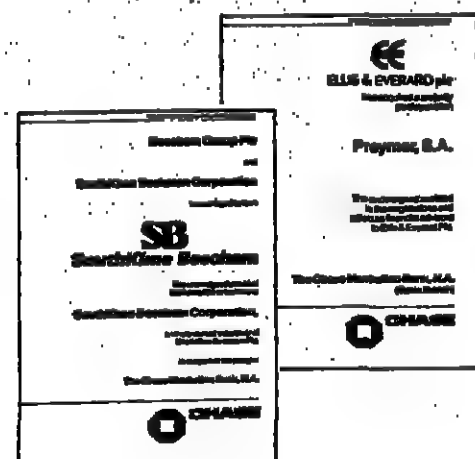
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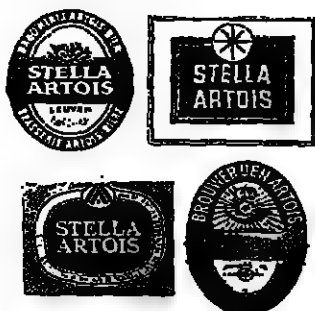
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## MANAGEMENT: Marketing and Advertising



Interbrew, Belgium's largest brewer, has reversed the decline in its home market of Stella Artois, its best-known beer. The brand's reputation has been revived by a marketing campaign that draws on the company's heritage. With sales now climbing, a strong base has been established for a more vigorous international expansion.

Two years ago Interbrew decided that it would have to look beyond its national boundaries for growth. It had realised that - in common with its European competitors, Heineken and Carlsberg - it faced a limited home market.

Half its annual beer sales of \$1.45bn are in Belgium, compared with Heineken's 14 per cent in the Netherlands, and Carlsberg's 30 per cent in Denmark.

Stella Artois, already an established brand in some export markets, was the obvious choice to lead the company's worldwide sales drive. But in Belgium itself, sales of Stella, once market leader, had been slowly declining for 10-15 years. Frequent changes in advertising themes had failed to stir a revival. One campaign had been widely acclaimed for its creativity, but with a strong generic focus it "probably did more to help our competitors than the Stella brand," says Tony Desmet, director, corporate planning and strategy.

Repeated blind tastings of the beer revealed no problems with the product itself. But Interbrew's consumer research showed a strong polarisation of attitudes towards the brand. While some 40 per cent of consumers declared themselves fans, an equally strong body of opinion dismissed Stella as "a synthetic beer" - a beer, in short, without status.

Such consumer perceptions, Interbrew found, were contributing to a decline in employee

## Revitalising a brand

## Looking back to go forward

When Belgium's largest brewer was looking for ways to put new life into home sales of its best-known beer, it looked to its heritage to create an effective marketing strategy. Philip Rawstone reports

morale. If Stella Artois were to achieve international success as a premium lager, the brewer decided, it was essential that its reputation for quality should be restored, and its sales improved, in its home market.

To carry out this task of rebuilding the brand, the group turned to a British design company, David Taylor Design Management, which had worked on brand and corporate identities for international clients such as Dunhill, Rothmans, Galvet and Black & White Scotch whisky.

Taylor's team began by taking a close look at how the label - first launched as a Christmas speciality in 1926 - was labelled, packaged and generally presented.

"Design goes far beyond decoration," Taylor says. "It must emphasise, communicate, and differentiate. It must go much further than simply identifying the product." Every single design element must work as hard as possible to convey exactly those values that the manufacturer wishes his customers to recognise and absorb.

Stella's weakness, Taylor concluded, was that its original identity and values had been eroded by successive attempts to modernise its packaging over the years. All sense of the beer's heritage had been lost.

The bottle had been designed primarily for efficiency on the filling line; the shape of the label was reminiscent of the 1960s; the date of the Leuven brewery's origins, 1366, could have been mistaken for a production code number.

The type-face used to display the brand name lacked distinctive character; and the chevron

symbol conveyed nothing about the roots of the brand. "The symbol was more appropriate for a petrol station or a construction company, or even a shipping line," Taylor says.

Other symbols of Stella's heritage had been neglected or ignored - the Horn trademark of the brewery, the star that had appeared on the label of the first Christmas beer, various medals awarded for excellence.

Taylor's team offered three possible designs for Stella's new label. The first made only slight changes to the existing label with its chevron symbol; the second recalled the clean, square format of the label that was used during the brand's

big growth period in the 1950s. The third option went back to the roots of the brand in 1926 - an oval beer label, featuring the star and the horn brewery symbol.

It was this that drew the most favourable response in consumer testing. Consumers saw it, somewhat paradoxically, as both classic and relevant to modern values.

The label design was further refined, emphasising the beer's quality and heritage: the golden horn symbol, and barley and hops and the 1966 date more boldly displayed.

An abbreviated version of the design was created to serve as a branding device for the brewery's vehicles, crates,

glasses, and stationery as well as the signs of its 10,000 outlets in Belgium.

A new longer-necked bottle was developed, based on a period design but adapted for the mechanics of the bottling line.

The 18 months of design work cost Interbrew \$250,000 to which was added the undisclosed cost of implementation, including the replacement of 42m bottles, 1.75m new crates, and the decoration of 250 vehicles.

Supported by a 64m advertising and promotional campaign - devised by McCann Erickson to echo the heritage theme with television commercials, cinema advertisements and

posters featuring horse-drawn brewers' drays in the Belgian countryside - Stella Artois was relaunched in its new trappings last year.

Eleven months after the relaunch, total sales volume had increased by 7 per cent against Interbrew's target of 4 per cent, and compared with a 4.2 per cent decline in the previous 11 months. Draught sales were up by 2.4 per cent but sales of bottles and cans where the design changes were more visible - had risen by 16.5 per cent.

Market share, measured by Nielsen, the trade research company, showed Stella had gained 2.3 per cent to 13.6 per cent.

Interbrew's own tracking studies showed that a majority of Belgium's beer drinkers had noticed the changes, and 46 per cent had reacted favourably. With a continuing rise in the brand's reputation, sales this year are expected to increase by around 10 per cent.

The new brand identity has also been introduced into 50 export markets; but not yet into the UK where Stella Artois, which handles Stella Artois under licence, has established its premium position by marketing it as a "reassuringly expensive" lager.

Confident of Stella's renewed reputation, Interbrew this year called on the David Taylor team again to design the labelling and packaging for an extension of the brand into the fast-growing alcohol-free beer market in Belgium and France.

Taylor has designed a stronger version of the parent brand's label, in green and silver, for the no-alcohol brew. "The consumer should not get the impression that this is a 'dry' or 'pale' imitation of the original," he says.

## Beware the eastern promise

A unified Europe presents opportunities for western advertising agencies, but, reports Alice Rawsthorn, their approach has been mixed so far

into the region as yet another part of their international advertising networks. "We have to service our clients wherever they operate," says Michael Meyer, head of McCann's interests in the region. "If our clients move into eastern Europe we must be there too."

The eastern European advertising industry is still immature. It is not really a formal industry, but a motley assortment of western joint ventures and local start-ups.

Y&R has opened offices in Moscow, Prague and Budapest. McCann is involved with joint ventures in Budapest, Zagreb

and Moscow. It is about to open an office in Warsaw and plans one in Prague next year. Saatchi has established joint ventures in Prague and Warsaw. It has also acquired majority stakes in agencies in Budapest and Belgrade.

D'Arcy Masius Benton & Bowles already has a joint venture in Moscow and is negotiating to set up in business with its working partners in Prague and Budapest.

Ogilvy & Mather, already involved with joint ventures in Moscow and Budapest, recently created a position of head of its operations in eastern Europe with a brief to expand its activities there.

The start-ups and joint ventures in eastern Europe are not advertising agencies in the conventional sense. Consumer advertising is, after all, something of an anomaly in economies where consumer goods are so scarce that they are snapped up as soon as they appear on the shelves.

There is some media advertising in the region, but it tends to be structured differently from advertising in the west. Y&R, for instance, is running a campaign for Du Pont in the Soviet Union which is aimed at increasing distribution, rather than raising consumer awareness.

Some of the new breed of eastern European agencies are involved with sales promotion and events organisation. Others are more concerned with preparatory work - market research and analysis - than advertising.

"It is just not possible to target into eastern Europe and act as though you are there to teach people how to run a western agency," says Andrew Fraser, business development director of Saatchi & Saatchi Advertising Worldwide. "You cannot go in with any preconceptions. You have to approach the market on a genuinely collaborative basis."

The cost of setting up an agency is comparatively low. Salaries are cheap and so is property. It costs around \$20,000 to set up a decent-sized joint venture in a city such as Budapest.

However, the logistical problems are enormous. One is the slow progress of the domestic economies, particularly since the current rise in oil prices has aggravated the problems of inefficient industries and heavy debts. Y&R is delaying its plans to move into Warsaw because of concern about the Polish economy.

There are also infrastructural weaknesses; communications is a serious problem. It is difficult to get telephone lines. There are long delays involved in making calls to Czechoslovakia, Hungary and Yugoslavia. It is even more difficult to phone Poland or the Soviet Union.

Y&R recently succeeded in getting a second line for its Budapest office. One line is for the phone, the other for the fax. Placing calls to Hungary

office to a regional TV station. The station, which is based in Serbia, refused to accept the cassette because it had been sent from Croatia.

It can be difficult to find suitable local employees. There are relatively few people in eastern Europe with experience of advertising or marketing. The western agencies have to invest heavily in training - and in sending experienced staff from the west - to ensure that their operations are run properly.

Finally there is the problem of extracting profits. It is possible in theory, but difficult in practice, to take money out of Hungary, Yugoslavia and Czechoslovakia. The situation is more difficult in Poland and the Soviet Union. Most agencies are paid in the west by their international clients for work done in eastern Europe.

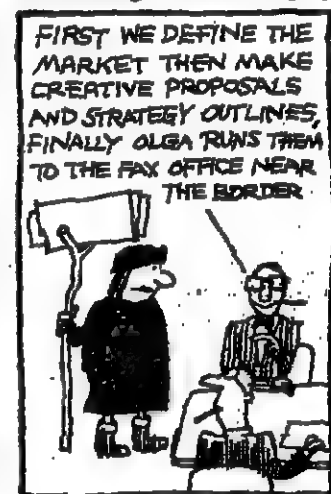
Some western agencies have decided that the disadvantages of operating in eastern Europe outweigh the advantages. J Walter Thompson has been studying the market for some time. It is considering finding working partners in the region, but does not envisage equity participation until the market is more stable.

"We are not developing at such a slow pace," says Carlos Fuentes, area director for JWT Europe. "We will wait until we are very sure before we move into eastern Europe in a meaningful way."

Grey has come to the same conclusion. It has formed working relationships with agencies in Budapest and Moscow. However, John Shanahan, chairman of Grey Europe, says it will wait to see how these relationships develop before investing further.

Other agencies see their activities in the region as a long-term investment in what, they hope, will eventually be a buoyant advertising market.

"We do not expect to see rewards for three or four years, but eventually it will become a profitable business. But whether we will be able to get our profit out is another matter," says John Banks, international chairman of Y&R.



It is so difficult that the easiest way for Y&R to contact its Budapest office is to send a fax saying "please phone".

Similarly, there are the day-to-day problems of operating in an immature market. One agency says it was recently approached by no fewer than four poster contractors in Czechoslovakia, all claiming "exclusive" rights to poster space in Prague airport.

Western agencies often do not understand the idiosyncracies of local customs. One recalls sending a video cassette from its Yugoslavian

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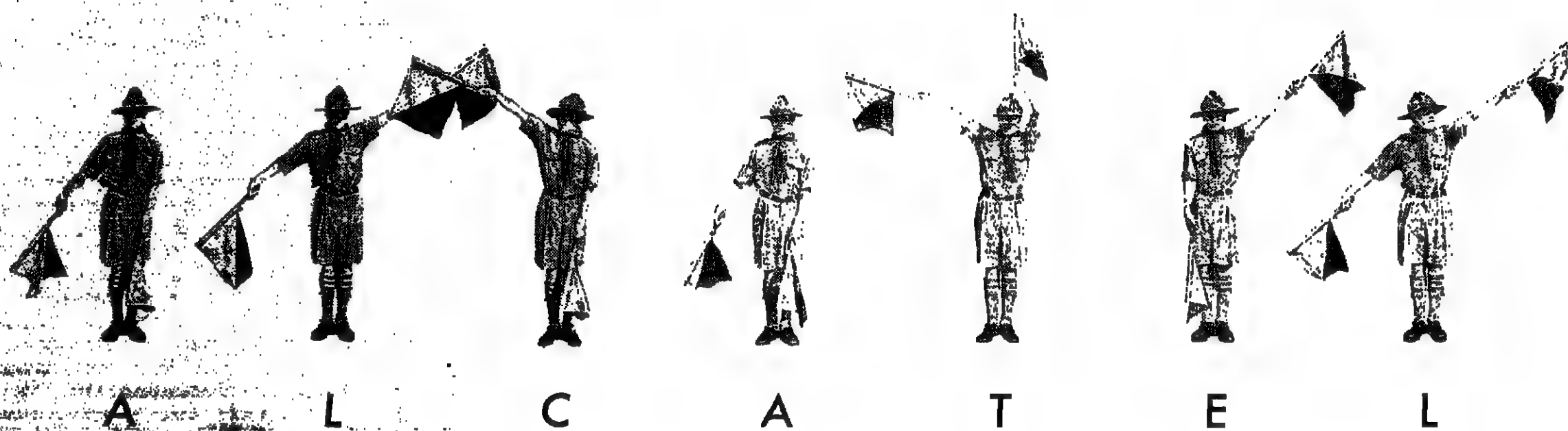
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## FINANCIAL TIMES

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Thursday November 15 1990

## The choice before the UK

MRS MARGARET Thatcher has never wanted for enemies. They are certainly all circling now. But it is her erstwhile friends that are doing her the greatest damage. They dislike her "style", they say the style and substance are "two sides of the same coin", and, most of all, they dislike her.

Yet the determination to confront chaos remains, as it has always been, the virtue that is the mirror of Mrs Thatcher's vices. Even in the debate on Britain's future within Europe, that determination is a virtue, although the prime minister's knowledge and the purposes of the other major players in the EC, it is not, in fact, sellable as an alternative to a currency union.

government and sellable in Europe.

Leave aside the question of "say", which is of interest only to the extent that the UK has something worth saying. Since the hard Ecu cannot serve the purposes of the other major players in the EC, it is not, in fact, sellable as an alternative to a currency union.

## Emu dilemma

Mrs Thatcher may have failed to object to Emu in diplomatic language. She also misses the point in her means about the pound sterling, democracy and the sovereignty of Parliament. But Mrs Thatcher is only mad north, north west.

There are three truths that should not be obscured in the debate on Emu. The first is that what is on offer is a common currency (or at the very least a single EC-wide monetary policy). The second is that if the UK does not accept that objective, it will find itself in the "slow lane". It may, indeed, find itself in the "slow lane" even if it does accept that objective. The third - and most important - is that acceptance of a common currency will lead, inevitably, to a substantial transfer of funds to independently exercised powers, going well beyond monetary policy, to the EC.

The UK can take one of four positions: say "no" and mean it; say "no", but give in in the end (this probably being Mrs Thatcher's true position); say "yes, maybe", and then haggle both about the timing of the move to union and about the extent of the associated transfer of powers; or say "yes, whatever".

## Fundamental issues

Critics of the prime minister's approach to the EC do not confront the fundamental issue. "There is talk, of course, of the emergence of a single currency for Europe," said Sir Geoffrey Howe in the House of Commons on Tuesday. Yes there is, Sir Geoffrey, and a great deal more than just talk. "And, of course, as I said in my own letter of resignation," he continued, "none of us wants the imposition of a single currency." Thereupon Sir Geoffrey pointed out that the "say" in EC affairs that the government should seek was to be supplied by the hard Ecu proposal, "a compromise acceptable in the

## Student unrest in Paris

THIS week's student demonstration in Paris placed the government in an unenviable situation. Mr Lionel Jospin, the education minister, has promised to announce an emergency package of measures for educational improvement today. But the students' demands are apparently unlimited, whereas the measures which the government can plausibly announce can only have a marginal effect on the educational system, and that not immediately.

The most unmistakable fact about the demonstrations is that students are demanding a better education, because they want to pass their *baccalauréat*. But it is also a fact that the protest movement started in the deprived suburbs on the Paris periphery, like Seine-Saint-Denis, where all the conditions of life are worse: schools, housing, environment, unemployment and crime. The students' underlying motives in demonstrating for a better education would appear to be the ulterior hope of avoiding unemployment and of escaping from the ghetto housing estates. The small number of lookers, apparently disproportionately black or Arab, appear to come from a layer of society which cannot escape.

Thus the students' demands are not narrowly concerned with the educational process, but lie at the interface between the schools and the society at large. In terms of pure education, France is almost certainly no worse off than its neighbours in Europe, and may well be better off, but in terms of the needs of the economy, it is marked by deeply ingrained French characteristics which may be handicaps in the modern world.

## Open door

The novel feature of the present situation is that the students are demonstrating in favour of what is already government policy: an improved and expanded educational system. Previous student protests were directed against government policy. In 1964 and 1966 against proposed educational reforms, in 1968 against the whole regime. This time, they are pushing at an open door. The disadvantage is that the

students, like the government, are proving to be mostly very rich individuals. So far 40 have put, on average, 51m each into the short fund, which is run from New York by four managers, and is based in Bermuda. Boardman claims his fund is a natural extension of his main £200m Optima Fund. The US financier Alfred Taubman is on the advisory committee of both.

"I am not a doom and gloom merchant", Boardman insists. But he does agree that his fund managers, who spend their days analysing business sectors and looking for the weakest in the flock, are not welcome guests among US industrial managers.

His European clients are proving to be mostly very rich individuals. So far 40 have put, on average, 51m each into the short fund, which is run from New York by four managers, and is based in Bermuda.

Secondly, the traditional alliance between education and the state has made education a highly-centralised system. This alliance has been buttressed by the links between the state and the teaching unions, especially under a socialist government. The Socialists have made gestures in the direction of decentralisation; but the convergence of the students on Paris shows where they believe the power still lies.

The government has talked much of humanising the syllabus, reforming teaching methods, softening the authoritarian attitude to school children, decentralising responsibility. But these qualitative reforms have lagged behind a quantitative expansion which is probably doomed to disappoint, and which appears to be misleading the students.

A common witicism during the closing years of the Habsburg empire was that the situation was "desperate, but not serious". A better saying today is that the position is "serious, but not desperate". There are many menacing world problems, some inter-linked. But there is a good chance of surmounting them if we keep our nerve.

Here is a very incomplete list:

- The Gulf. This is still the most likely source of a combination of depression and inflation, let alone war.
- The banking-related crises, especially in the US and Japan.
- The dramatic fall in the dollar. Despite the conspiracy of silence, this will soon be in the spotlight.
- The blow to world savings from the shrinkage of the German and Japanese surpluses.
- The integration of the Soviet empire.
- The urgent need to support reconstruction in central Europe.
- European Monetary Union, the credibility of sterling in the ERM, and the British Conservative leadership.

The main point on the last item was made by Sir Geoffrey Howe when he said: "The others cannot impose their solution on the 12th country against its will. But they can go ahead without us."

The immediate threat remains the Gulf, where alas the phony war looks like giving way to a shooting one. Perhaps I can draw a little on my credit as a dove in virtually all international conflicts, from Suez and Vietnam to the Falklands, to say that the self-appointed emissaries to Saddam Hussein are doing the cause of peace no good. On the contrary they may be promoting a false sense of *fait accompli* on his part which may encourage a fatal miscalculation.

The oil markets now seem to assume that any war in the Gulf will be over reasonably quickly. But if the Saudi Arabian oil fields were threatened by a triple oil shock: the need to pay the Soviet Union in hard currency, the need to pay for it at world prices and the doubling of these prices since last spring.

One does not have to be an aid enthusiast to see the case for western help to central Europe, both to cushion the oil shock and to guarantee efforts to establish convertible currencies at realistic exchange rates. Even more important in the longer run is the establishment of objective criteria, which, when fulfilled would enable them (along with EFTA countries) to become European Community members automatically. It would help if the central Europeans would combine to the extent of presenting a joint programme of requirements, as western Europe did at the time of the Marshall Plan. At least these problems are manageable, in contrast to those of the Soviet Union and the Balkans.

The altogether different western banking danger is well explained by Professor Alan Budd in the November Barclays Review. A credit crunch begins with a rise in bad debts, which undermines bank profits and capital and thus lending ability - which in turn leads to more business failures and enforced sales.

A long period of credit

expansion has ended in the US with a large number of banks unable or reluctant to lend. In Japan it has been the fall in share prices which undermines lending ability; and the collapse of property prices would bring a much worse deterioration. The UK position is less dramatic, but bad debts are already as high as in the more severe 1981 recession.

The effect of a credit crunch is to make a given level of interest rates more contractionary than otherwise. It is thus prime face justification for central banks to reduce interest rates, while maintaining anti-inflationary policies. In view of their overreaction after the 1987 Wall St crash and the potential inflationary impact of the Gulf, they are, however, understandably inclined to err on the side of caution.

The real memorandum arises however in leader of last resort operations to offset, not a credit crunch, but a run on the banks. Many other financial institutions now play a banking role. But if the safety net is extended too far the moral hazard becomes unmanageable and the next wave of credit explosion still more irresponsible. Lender of last resort principles have not been overhauled since Bagehot wrote in the mid-19th century. Meanwhile, I offer the slogan that it is depositors, not institutions, that need protection.

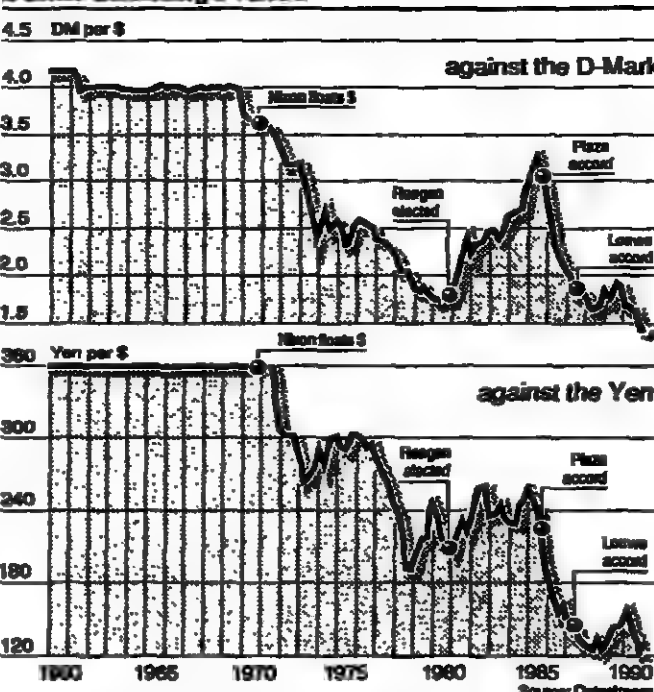
A very different pressure arises from the demands on German savings from unification. As there is little to spare for the rest of the world, the German current account surplus is likely to fall steeply, as

## ECONOMIC VIEWPOINT

## Serious not desperate

By Samuel Brittan

## Dollar exchange rates



Oil has also vastly added to the problems of the former communist world. The most promising development here has been the readiness of the central European countries - Poland, Czechoslovakia and to some extent Hungary - to put their own houses in order.

But they have been hit by a triple oil shock: the need to pay the Soviet Union in hard currency, the need to pay for it at world prices and the doubling of these prices since last spring.

One does not have to be an aid enthusiast to see the case for western help to central Europe, both to cushion the oil shock and to guarantee efforts to establish convertible currencies at realistic exchange rates. Even more important in the longer run is the establishment of objective criteria, which, when fulfilled would enable them (along with EFTA countries) to become European Community members automatically. It would help if the central Europeans would combine to the extent of presenting a joint programme of requirements, as western Europe did at the time of the Marshall Plan. At least these problems are manageable, in contrast to those of the Soviet Union and the Balkans.

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A very different pressure arises from the demands on German savings from unification. As there is little to spare for the rest of the world, the German current account surplus is likely to fall steeply, as

is, for different reasons, the Japanese surplus.

The shrinkage of the surpluses should, other things being equal, help to sustain demand in the rest of the world where recession looms. We should not throw away this silver lining. But other things are not quite equal. During periods of normal world activity the disappearance of two important sources of world savings would tend to push up interest rates. The financial markets know this in their bones and this knowledge will limit the ability of central banks to reduce interest rates. Those mainstream US policymakers who campaigned against Japanese and German surpluses have a lot for which to be thankful.

Efforts to maintain world activity without stoking up inflation are, moreover, made more difficult by the falling dollar. The US currency is now below the low point reached after 1987 Stock Market crash; and the US administration seems either indifferent, or pleased with, the fall. The Bundesbank, for its own selfish reasons, concurring at this malign neglect.

Let me concede that there might have been a case for a one-off downward realignment of the dollar against the D-Mark and the yen, if the dollar had had a long run record of stability and there were joint management of exchange rates by the three main industrial powers.

But as things are, dollar depreciation looks like one further step in the long-term fall in the US currency which has neither created prosperity, nor helped the US balance of payments, but mainly left the US with a underlying 4 to 5 per cent creeping inflation, which makes it more difficult for the Fed to fight recession.

It is time that the Group of Seven leading industrial countries (which is code for the Group of Three) get together to take some views on whether the growth of world demand in the industrial countries is excessive or deficient and allocate responsibility for any necessary adjustments. The US will indeed be trying to wake up the wider forum of the Economic Policy Committee of the OECD, which meets in Paris today and tomorrow, to its responsibilities here. What I miss however is an emphasis on the key little

word "nominal", which differentiates my proposal from the ill-fated Carter-initiated demand boost after the 1978 Bonn Summit.

In addition, the Group of Seven needs to heed the French call for the re-establishment of target exchange rate zones and (in contrast to the Plaza and Louvre accords) agree on the domestic policies required to achieve them. So far from crying for the moon I am merely pleading for a man-made equivalent of the Gold Standard which was associated with nearly a century of long-term stability and prosperity before the first world war.

That unlikely sounding pick-up has swept the US and Sweden. The EC is destined to be its next stop.

But while the youth of Europe may not yet have heard of "oral moust" the alert bureaucrats in Brussels declared yesterday that it must be before Europeans get hooked on what they regard as a highly addictive and cancer-causing substance.

For once the UK is on the side of the angels, being almost the only EC country in which the snuff bag is already illegal.

Last scene

The New York art market may be moribund, judging by this week's auction of the Henry Ford Impressionist paintings, but the lure of a legend lives on.

Before Greta Garbo's belongings go under the hammer at Sotheby's today the crowds have been pouring into the pre-sale showroom in their thousands. Within an hour of the doors opening on Sunday a line snaked round the block and into the distance.

Garbo seems to have amassed a homely collection of odds and ends, rather than "great art". It's just junk, drewled one East Side matron to her friend, as they gazed at a case of china ornaments, ranging from porcelain canisters moulded like tulips, to a scent bottle shaped to resemble a wizard.

But quality is not really the point. For perhaps \$150,000 you could have a little bit of a legend in the living-room. Judging by the number of absentee bids that have been flooding in for the smaller items that is just what large numbers of New Yorkers want.

Mature

I know there are some readers who consider my jokes too old. Perhaps they would like to consider the wine list at a Tokyo restaurant which still lists Beaujolais Nouveau 1978.

Snuffed out

The latest supposedly deadly threat to the young people of Europe is a kind of tea bag containing snuff that is inserted between gum and cheek.

## BOOK REVIEW

## Economics of extinction

If you oppose the wholesale slaughter of the African elephant, then you should campaign for the resumption of the ivory trade, which was banned last year by an international convention.

This paradoxical argument emerges from a startling new book on the destruction of the elephant. It has been written by a group of British environmental economists including Professor David Pearce, co-author of *Blueprint for a Green Economy*, the best-selling manual on green economics, and adviser to Mr Chris Patten, the UK environment secretary.

Prof Pearce and his fellow authors adopt a central thesis of *Blueprint* - that it is possible to bring hard-headed economic considerations to bear on environmental decisions. They then apply it to the problem of preserving the African elephant from extinction, which could occur as early as 2010 given recent killing rates.

"We believe, strongly, that economics offers an added dimension to the case for conservation and preservation, contrary to the popular image of economics as the despoiler of nature," they contend.

Their closely argued book on the ivory trade is a triumph of vindication of that contention. Yet it will also appear controversial, even painful, to people whose views have been formed mainly by pictures of elephant carcasses with their tusks gouged out by chainsaws. Most wildlife enthusiasts regard the ban on the ivory trade, carried out under the umbrella of the Convention on International Trade in Endangered Species (Cites), as unquestionably a good thing.

Elephants, Economics and Ivory stands this conventional wisdom on its head. "An ivory trade ban is, in the long run, a very perverse way in which to attempt to conserve the elephant... The crucial causal factor in the elephant's decline has not been the ivory trade per se, but rather the failure of some states to utilise it constructively," the book says.

The argument is twin-tracked. First, the ban will not work. The authors acknowledge that the clampdown on demand this year in the principal consuming countries, notably Japan, has produced a sharp drop in ivory prices. But they argue that this gain is strictly temporary, because of the remarkable flexibility of the ivory trade.

New carving centres or staging posts, such as Dubai, Singapore and Macao, have been opened as the trade has been forced out of the old centres.

Cheaper ivory, the book argues, will encourage sharply higher demand among consumers previously priced out of the market in countries such as South Korea, Taiwan and Saudi Arabia. This trade will be unmonitored because these new centres of demand are not parties to Cites.

But the authors argue that this would not necessarily cut income to ivory producers because demand for ivory in Japan is relatively insensitive to price. Ivory's price elasticity, they calculate, is similar to that of petrol in Japan, allowing producers to be compensated for lower quantities with higher prices.

Their book is a model of how economics can illuminate environmental problems. Which is not to say that its proposals are correct.

Dr Richard Leakey, the respected director of the Kenya Wildlife Service, believes that even a controlled resumption of the trade will encourage ivory poaching. This argument will become increasingly fierce in advance of the next Cites meeting when moves are expected to relax the trade ban.

David Thomas

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That unlikely sounding pick-up has swept the US and Sweden. The EC is destined to be its next stop.

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# Heseltine brings out a bulging bag of tricks

Philip Stephens assesses the manifesto of the former defence minister

No politician seeking to lead his party has ever produced such a bewilderingly comprehensive manifesto. Mr Michael Heseltine has views on everything.

Britain's place in Europe may be the issue that holds the headlines in his bitter struggle with Mrs Margaret Thatcher. But if the former defence minister defies the odds and defeats her, virtually every department in Whitehall faces potential upheaval.

His manifesto - framed in the torrent of books, speeches and interviews produced since his resignation from the cabinet in 1989 - is breathtaking, and occasionally bizarre, in its scope.

European integration, a stronger economy, industrial regeneration, and the abolition of the poll tax are its core. A pledge to maintain strong defences is there, always in the background.

**If he defeats her, virtually every department in Whitehall faces potential upheaval**

His commitment to keeping in private he would say restoring - Britain to the first division of the European Community has been rehearsed a hundred times. So too has his passionate belief in a new partnership between government and industry, in the restoration of the inner cities and in the need to relate the poll tax to ability to pay.

But Mr Heseltine also foresees American-style mayors in Britain's cities, statutory chambers of commerce training the country's workforce, even new standards for the carbon dioxide emissions of fridges-freezers.

Friends say that the never-ending flow of ideas marks him out as an original thinker, though they sometimes add that in perhaps some of these turn out to be half-baked. Enemies liken him to a magician, constantly seeking new tricks which, at first glance, provide a comfortable illusion.

For his part, Mr Heseltine

regards himself as the only radical alternative to Mrs Thatcher: not an interventionist, but a radical alternative to the cosy days of One-Nation Toryism; but neither a politician who believes that the blunt-edged solutions of the 1980s can be applied to the challenges of the 1990s.

But the former defence minister, who hopes to be the first politician since Winston Churchill to return from the backbenches to lead his party, does not make it easy for others to judge just how he would run Britain.

In part it is a deliberate confusion. Mr Heseltine has spent the past four years cultivating the electorate of 372 MPs who next Tuesday will decide his fate. That has meant recognising the significant shift to the right within the parliamentary party since 1979.

A prospective leader of a traditional wet had to demonstrate that he was convinced of the basic tenets of Thatcherism. He has also had to build his distinctive platform while retaining, until this week, the pretence of support for the prime minister.

Mr Heseltine's approach has been to promise to add rather than subtract to his inheritance; to balance each proposal which might seem to run against the grain of Thatcherism with another which the prime minister could not quarrel with.

Thus his plans for a more powerful department of trade and industry to forge a new partnership with Britain's manufacturing industry run alongside a promise to reduce bureaucratic interference by Whitehall civil servants.

The politician who promises to put more of the taxpayers' money into research and development pledges also to force much greater competition among those bidding for government contracts.

A promised crusade to bring the provision of education and training up to the standards of

Germany or Japan is coupled with tirades against the National Union of Teachers.

Better health and transport services would not be achieved simply by pumping in extra resources but by increasing further the competition and choice which the government is already promoting.

And if those condemned to poverty or disemployment could expect a rather more caring Conservatism, the unemployed would be expected to pay their way on US-style "workfare" schemes.

Above all, the commitment to European integration is framed always in the context of national self-interest. The aim always is to enhance Britain's influence in the world rather than diminish its control over its own destiny.

It is those two sets of policies - towards Europe and towards British industry - that provide the most illuminating clues to Mr Heseltine's underlying philosophy.

The constant threads are these: governments can do things. And something has to be done to reverse the secular decline in Britain's economic and (therefore) political power which 11 years under Mrs Thatcher may have arrested but have not reversed.

Mr Heseltine's ambition is to make Britain Great again, and he is not ashamed to admit it. The end, not the means, reminds some of Mrs Thatcher.

His books and speeches are shot through with envious allusions to the much stronger economic performance of Japan and Germany; to the wide world which France views its high-tech industries, its space programme.

His idea of a partnership with industry - with greatly enhanced education and training and a stronger commitment to R & D - is couched also in terms of providing a level playing field with more prosperous competitors.

The role of free markets is emphasised, but it is capitalism on the German or Japanese model. Mr Heseltine despairs at the decline of



Britain's manufacturing industry and sees the trade deficit as an affront to Britain's national esteem. It is more difficult to assess the extent to which his aspirations could be translated into a programme for government. A few changes would be obvious and immediate, but the rest would depend on victory at the next general election.

## Mrs Thatcher has set an unshakeable agenda, writes Joe Rogaly

# Win or lose, her legacy will last

Never mind about Mrs Margaret Thatcher, or Mr Michael Heseltine, forget about who is more likely to destroy whom. The question is, will the course of British history since 1979 turn out to have been a 'one-way street' with all the undoubted achievements of Britain's extraordinary prime minister reduced to dust?

Put it like that and the anxieties of those who call themselves Thatcherites are seen in proportion. For the answer is, of course, a strong negative.

It is not that Mrs Thatcher's continuing existence have nothing to be anxious about. Few would deny that we are now witnessing the endgame of her career, or that the prime minister appears to be irreversibly weakened. It will be a quick exit if Mr Heseltine's challenge results in her departure from No 10 Downing Street, or a slow fade-out if it does not. She may survive - perhaps for a few months - possibly until after the next election - but she can no longer tower above her colleagues in the manner to which they had become so uncomfortably accustomed.

Her impact on Britain will, however, be felt long after any conceivable Tory successor takes the place, as to a potential Labour government, one of the prime minister's not inconsiderable contributions to the British polity is that she has blasted the crypto-communism, and much even of the quasi-socialism, out of the opposition. The essence of her legislation on trade unions will survive intact whatever happens; more to the point, a series of victories in the great set-piece industrial relations battles, culminating in the destruction of the national union of miners, have obliterated the old generation of labour union barons.

The same sense of permanence applies to privatisation. Water, the national grid, and possibly British Telecom would not be wholly safe with Labour, but for the rest no one is proposing to reverse this aspect of the rolling-back of the frontiers

of the state. Mr Heseltine would undoubtedly continue the process; he would even go one step further than Mrs Thatcher is willing to contemplate and create an independent Bank of England. In the social sector, every major council house, sales now, and a national curriculum is a permanent part of the education system.

Again, not even Labour dares to proclaim an intention to return to the public-spending profligacy of the pre-1979 years. Mr Heseltine might turn out to be milder on social security payments than any Thatcherite, while his inclination appears to be to make general cuts to finance such of his grandiose infrastructure schemes as can be afforded. He is not very forthcoming about taxation plans. The upshot is this: any politician who is prepared to lock himself into a European monetary union and an independent central bank is either stupid or aware that he is putting voluntary shackles over his own potential fiscal profligacy.

What appals Thatcherite true believers is the prospect of a mightily enlarged Heseltinian department of industry, not to mention the establishment of regional authorities charged with the promotion of investment, the purposeful deployment of government procurement powers, and face-to-face prime ministerial exhortations of chairmen.

Such interventionism, which would also be practised by Labour government, would certainly represent a change of direction but it would be unduly depressing to describe it as a complete return to the corporate state of the 1970s. Much would depend upon the degree to which trade union arro-

gance was revived. Round-table bargaining with union bosses who think they run the country are one thing; talks with general secretaries who know their limitations are another. Labour will not deserve to be trusted even on the basis of a Labour prime minister has seen off his first three public-service unions, preferably all in the national health service. A Heseltine industrial policy would be a businessman's policy: pragmatic decisions, taken in shirt-sleeves, in the interest of growth. He argues that this already happens, under cover of a purist liberal economic policy. He is partly right. A secondary concern facing Thatcherites is that some of their ideas for further incursions of market theory into social policy might be side-stepped by Mr Heseltine. He is a proponent of workfare, which means that you qualify for unemployment benefit only if you accept a proffered job or useful training, but on many issues he has his own agenda, and it is not all coincident with what is put out by the Centre for Policy Studies, the Adam Smith Institute or even Mrs Thatcher's guru-in-the-dungeon, Professor Brian Griffiths. That this is a real concern was made clear yesterday when the challenger promised a complete review of the poll tax.

This is of course a political undertaking, not a moral one. Yet the poll tax, designed to make the poor pay for the policies they vote for, is a real flat-rate imposition, regressive. It is the single most wicked piece of fiscal policy the Thatcherites have introduced. There is a widespread feeling that it is unfair. Consequently, Tory MPs feel more threatened by the poll tax than anything else. It is wholly just that its effect



Does Dulwich beckon? Few would deny that we are now witnessing the end-game of Mrs Thatcher's career

may have been to destroy its architects, and a delightfully piquant act of fate that a promise to abolish it might become the decisive factor in determining the more extreme ideologists of the new right.

Those who may mourn its passing on purist grounds might reflect that it was never likely to survive for long in its original form. Rebates and the panicky introduction of bribes for disgruntled voters have already distorted it beyond recognition; even if Mrs Thatcher has a fourth general election victory the future for the poll tax is to say the least uncertain.

The prime minister was becoming a lame duck on such matters even before Mr Heseltine entered the

fray. One piece of evidence for this is the firm rejection of education vouchers by Mr Kenneth Clarke, who was made secretary of state for education just the other day. Only a few weeks previously Mrs Thatcher had indicated her strong preference for vouchers; she subsequently called in Mr Clarke's predecessor to press her case. Now Mr Clarke has outlasted her, in public.

The matter on which a change of prime minister might be expected to make an appreciable difference is, of course, Europe. Even here, however, it is a "might" not a "will". Those who express the greatest support for Mrs Thatcher's approach to the European Community often do so as a result of a strong identifica-

tion of her instincts with their own. There is a perfectly respectable case to be made against a single European currency, or a European central bank, or indeed against irrevocable acts of political union. In one of her moods, Mrs Thatcher makes it. If the government of which she is prime minister was propounding this case as she does when she ad libs you might be able to argue that if you want to draw a line under Britain's present degree of integration with the EC, back her.

Your conclusion has to be quite different if you accept her official pronouncements, when read out as drafted. That version of the Thatcher government accepts a single currency, provided it is not

imposed, and provided parliament votes for it first. Its suggested European monetary fund is not a central bank, but who can doubt that, after much argument with the other 11 members of the EC, it would come to look very like one? The prime minister may be able to prolong the debate, but in the end she is no more likely to be able to block the process than she was when it came to the single market, or entry to the ERM. Mr Heseltine has been careful to show his own nationalistic colours this week. He would be the most enthusiastic climber aboard of the Eurotrain, but all other possible prime ministers, from the foreign secretary, Mr Douglas Hurd to the Labour leader, Mr Neil Kinnock, would do a deal rather than go it alone.

Mr Hurd could salvage the Conservative party, even though there might be mutterings from some devoted anti-federalists. He is not, however, standing for election and would be in great difficulties if the voting went to a second round and his nominated candidate, the prime minister, stayed in the contest. We can consider him if and when he gets out of that trap.

Meanwhile it would be quite wrong to assume that Mr Heseltine could easily unite the party, although if he could he would be well-placed to defeat Mr Kinnock. Some pure Thatcherites say they would rather have a spell in opposition than see Mr Heseltine in Downing Street. What would be the top of their protest would be the heroine's intellectual honesty - which is imperfect but greater than that of most politicians. This is not a virtue they ascribe to her challenger, as we shall doubtless hear over the next few days. Meanwhile, I cannot help reflecting on one supposedly divisive characteristic that Mr Heseltine shares with the prime minister. She is an enthusiast, a fighter for schemes in which she believes. So is he. She enjoys being elective dictator, even though she is now less able to dictate than she was. He would absolutely adore it.

## Fatal error of the vanguard in history

From Messrs Anthony Baron and Robert McGarvey.

Sir, Mr Siedentop ("Thatcherism's inconsistency," November 7) makes a welcome contribution to the debate on British democracy, its relation to the development of a prosperous enterprising society and its critical effect on Britain's role in Europe.

This fundamental issue has not received the attention it deserves due to the general failure by liberals to address the whole concept of change. Consequently in Britain little effort is directed towards understanding the need to accompany the advance of economic liberalism with greater

dispersion of political power. Mr Siedentop is correct. The Thatcher government has done the nation a great service in championing the dispersion of economic sovereignty. It has unleashed powerful forces by opening the door to consumer capitalism. Economic liberalism has created in its wake a property-owning populist majority dedicated to capitalist development. The great irony, as pointed out by Siedentop, is that this very success has occasioned the urgent need to consolidate that majority by empowering them politically.

When in the past Britain has achieved the perfect harmony between the will of the people

and the institutions of power the result has been a unity which propelled the nation to a leading world role. The great cultural and economic bloom of the Elizabethan age and the remarkable growth of the 19th century were preceded by reforms, or dispersions of power, which led to periods of growth and advancement.

As with other vanguard parties, such as the Bolsheviks, the Tory Party under Mrs Thatcher has used concentrated political power to bring about revolutionary economic change. The fatal error of the vanguard in history has been its singular inability to recognise the critical moment when, to maintain the momentum of change, power needs to be dispersed, completing the process and giving it permanence. The need for parliamentary reform is now vital.

A. Baron, R. McGarvey, directors, Baron, McGarvey, directors, 100 Oxford Street, W1.

## Incomprehensible voting systems

From Mr Rosie Sharpley.

Sir, It has at last become clear that an election for the House of the Conservative Party will take place shortly. As a Liberal Democrat councillor I find it incomprehensible

that both the Conservative and Labour Parties elect their leaders other than by a universal vote of their members. Rosie Sharpley, 13 Allerton Close, Woking, Surrey

## LETTERS

### Debt relief trick or treat

From Mr P.J. Martin.

Sir, Are the new rules on value-added tax bad debt relief (clause 10 of the Finance Act 1990) really the generous gesture we are led to believe? The first time bad debt relief is available to creditors of companies which have not been declared formally insolvent - but only after two years have elapsed, and then only after the debt has been written off in the accounts.

The drawback is that, although until now VAT bad debt relief became available to creditors immediately a debtor company was declared formally insolvent, under the new scheme they must wait two years and write off the debt.

ies to run a dual system whereby creditors may claim immediately in the case of a debtor's formal insolvency, and after two years in other circumstances, have so far fallen on deaf ears.

Meanwhile, with the recent dramatic increase in company failures - and with the introduction of the "wait-two-years" rule - the cash flow of many relatively small businesses is suffering. Is this really generosity, or is it a classic case of giving with one hand and taking away with the other?

F.J. Martin, chairman, Institute of Credit Management, Easton House, Easton on the Hill, Stamford, Lincolnshire

## The taxpayer and duty free

From Mr Brian Flint.

Sir, The duty free debate goes backwards and forwards. But I hope that you will stop the game with the ball in BAA's court.

Of course duty-free goods represent excellent value to the purchaser, as Sir John Egan says (Letters, November 9). They do so because they are subsidised by government and in spite of the fact that a significant proportion of the subsidy is creamed off by BAA and its concession holders.

The only relevant question is: why should the average taxpayer be required by government to subsidise in this way the airport operators, their concession holders and the travellers, the majority of whom can well afford to pay the full, duty-inclusive price for alcohol, tobacco, perfume and other luxuries?

Brian Flint, 2 Grande Rue des Verrines, Nery, France

## Odds are on pre-cast

From Mr Michael Brown.

Sir, Lynton McLean's article ("A veteran workhorse keeps pace," November 14) contains British Steel statistics that are both misleading and questionable.

Structural steel ex-mill has dropped in price in real terms in the 1980s but fabricated steel - the sort that gets to site - has risen and fallen over the same period, depending on the market and the fabricator.

The article's chart, comparing the prices of steel, concrete and precast concrete, is misleading.

Structural steel ex-mill and ready-mixed concrete are ingredients of structures and require other elements - such as fire-proofing for steel and reinforcement and shuttering for ready-mixed concrete - to produce a structure.

Precast concrete by contrast can deliver a complete structure, frame floors and fire protection, from a single subcontractor who takes the responsibility for design, man-

ufacture and erection. So the chart does not compare like with like, or provide an accurate indication of which framing method provides the most economic and cost-effective structure.

Clearly in the current building industry recession there will be bargains around as steel fabricators desperately seek volume in a shrinking market. But they are unlikely to tempt back those customers who have turned away from steel because of the volatility of price and uncertainty of quality and who have chosen instead precast concrete in order to obtain high quality and economy within guaranteed short time scales.

In the current environment - to pursue the equine metaphor - precast concrete is odds-on favourite.

Michael Brown, chairman, Precast Concrete Frame Association, 60 Charles Street, Leicester











## INTERNATIONAL COMPANIES AND FINANCE

## Astra upgrades growth forecast after 34% surge

By Robert Taylor in Stockholm

ASTRA, Sweden's biggest pharmaceutical group, yesterday reported a 34 per cent jump in profits before financial items, to SKr1.84bn (\$332m), for the first nine months of 1990.

The strong performance has allowed Mr Hakan Mogren, chief executive, to upgrade expected growth for annual profits from 25 to between 30 and 35 per cent.

Astra's nine-month sales rose 27 per cent to SKr6.8bn. Profits per share jumped 41 per cent to SKr1.11.

Astra's attributed its strong profits partly to the success of its anti-peptic ulcer drug, Losec.

World sales of the drug, including those through licensees, were around SKr1.4bn for the nine months, or almost 20 per cent of total group turn-

over. Losec is a rival to Glaxo's Zantac drug.

Astra itself recorded sales of SKr92m for Losec during the nine months, up from SKr51m for the same 1989 period. The drug has captured 20 per cent of the French market and around 15 per cent in Spain.

Earlier this summer, an advisory committee of the US Food and Drug Administration gave the go-ahead for the wider use of Losec. Astra said yesterday the FDA would ratify this decision within the next few months.

This would give a powerful boost to Losec sales in the potentially lucrative US market. At the moment, the drug is sold in the US through Merck, the world's largest pharmaceutical company,

under a 1982 agreement with Astra. Its use at the moment, however, is limited to the treatment of relatively rare disorders caused by gastrointestinal acid.

Astra's fastest growing product group is agents for gastrointestinal diseases, with a 222 per cent climb in sales over the nine months to SKr1.13bn. There was 27 per cent growth to SKr1.66bn in sales of agents for respiratory diseases.

The company continues to invest heavily in capital spending projects, with SKr683m committed over the nine months compared with SKr400m for the same period of 1989. As much as SKr516m of that amount has been spent in its Swedish operations.

## DG Bank chairman announces resignation

By Katharine Campbell in Frankfurt

MR HELMUT Guthardt, chairman of Deutsche Genossenschaftsbank, Germany's fourth largest bank, announced his resignation yesterday after a series of problems that have dogged the bank for months.

DG Bank said the supervisory board had agreed to Mr Guthardt's wish to leave after next year's annual meeting.

Chairman of DG since 1981, Mr Guthardt (pictured) has presided over an ambitious attempt to create an internationally competitive universal bank out of an institution serving the liquidity needs of the country's co-operative

## Boots held back by acquisition costs

By Jane Fuller in London

THE COST of borrowing associated with the £900m (\$1.8bn) purchase of Ward White reduced the pre-tax profit increase at Boots, the UK retail chemist and pharmaceuticals group, to 1 per cent in the first half.

While Boots' trading profit advanced by 26 per cent to £188.5m in the six months to September 30, the cost of servicing debt shot up to nearly £27m, whereas the group received £10.6m in interest payments in the corresponding period last year. Pre-tax profit totalled £161.7m, against £139.9m.

The largest part of the Ward White acquisition was Balfords, which deals in car parts

and accessories. Sir James Blyth, Boots chief executive, admitted that its performance had been disappointing. Although it contributed £140.4m to group sales of £1.78bn, its trading profit was only £2.6m.

The disappointment was mitigated by another strong performance from Boots' The Chemist, where trading profit improved by 40 per cent to £88.2m, compared with £62.9m a year ago, on a small sales advance to £1.09bn from £1.04bn. Sir James said that, leaving aside a pensions holiday and changes in central charges, growth had still been 26 per cent.

Key factors in the success of

the 1,059 shops included higher profit lines, tough negotiations with suppliers, and tight cost control. Over the past three years, profit per square metre had doubled, thanks to the use of information gathered from 9,500 Epos (electronic point of sale) tills.

In pharmaceuticals, trading profit went up 13 per cent to £51m on a 6 per cent sales increase to £902.1m. Outside North America, overseas sales growth had been 18 per cent, with a new Italian subsidiary doubling its sales in a year.

Among the drugs, Synthroid, a thyroid drug, grew strongly, as did over-the-counter products such as Strepsils, which come from the Crookes stable.

The former Ward White entities, Balfords, Payless (the DIY superstores now in a joint venture with W. H. Smith's Do I All) and A. G. Stanley, which has the Fads DIY shops, contributed a total of £14.3m to the retail division. This was partly offset by a £2.9m loss at Children's World, and an £800,000 loss in France.

While rental income from full property increased, the proceeds of sales slipped, leaving the divisional profit of £32.7m, compared with £28.9m a year ago.

Earnings per share fell to 11.2p, against 11.7p. The interim dividend goes up to 4.1p. See Lex, Page 24

## Dragados seeks control of CAE

By Tom Burns in Madrid

DRAGADOS Y Construcciones, Spain's biggest construction group, yesterday announced a Pta5.25bn (\$66m) bid for 76 per cent of CAE, a profitable domestic electronics company that is a market leader in traffic signalling equipment.

Dragados already owns 24.9 per cent of the company, but its bid to take full control immediately ran into difficulties when Reucari Investments, which controls just over 26 per cent of CAE and appoints its management, said it did not intend to take

up the Dragados offer.

Trading in CAE stock was suspended in Madrid yesterday, with the company's share price standing at a year's low of Pta1.100, down from Pta3.450 in January.

Dragados, which acquired its 24.9 per cent stake in CAE at Pta2.500 a share when the electronics group made a rights issue in June, is now offering Pta1.500 for the balance of the capital.

Despite Reucari's refusal to sell to Dragados, the bid is considered by CAE to be a friendly one. Mr Domingo Curcio, a

CAE director, said that the company's executives had "an excellent and intimate relationship" with the Dragados management and were anxious to develop projects between the two groups.

Under Spanish legislation, the management of a target company in a takeover bid is not required to issue a recommendation to shareholders.

Mr Curcio said CAE's other stockholders, 15 per cent of whom are believed to be non-Spanish, were "free to hold or sell".



banks. The desire for growth, seemingly at the expense of rigorous internal management, has repeatedly drawn the bank into controversial waters.

Earlier this year, a messy dispute over bond transactions with a number of French banks nearly toppled Mr Guthardt. Four bond traders were arrested, a criminal investigation was started, and the vice-chairman was forced to resign.

DG also ended up with 67.5 per cent of Co op in the course of a rescue operation for the supermarket chain.

This unfortunate chapter now looks close to ending happily with the recent announcement that retailer Asko would buy out the shareholders at a price expected to give DG a profit.

## Bilspedition plans rights issue

By Robert Taylor

BILSPEDITION, Scandinavia's largest private transport group, plans a rights issue to bolster its financial base and cope with an aggressive acquisitions drive in the face of a transport industry slump in the Nordic region.

The new shares issue offers existing shareholders one new SKr35 share for every two they already hold. In this way, Bilspedition hopes to raise SKr545m (\$85.4m). A shareholders meeting has been called in Gothenburg for November 30 to approve the plan.

Bilspedition's ambition is to become one of Europe's biggest transport companies in the 1990s. The company has just bought 50 per cent of the shares in Sweden's domestic airline Linjeflyg. It recently acquired the German shipping concern Nellen and Quack, as well as 40 per cent of the Norwegian company Transporthinvest.

The company is also negotiating the purchase of Speditorgruppen, Finland's biggest transport group. The company said its bus-

ness volume growth was weak this year. In spite of this, recent investments to rationalise Bilspedition's structure would improve results. It expected an improved profit of SKr712m for this year, and looked forward to further earnings growth in 1991.

● Danish pharmaceutical group Novo Nordisk said its pre-tax profit rose 5 per cent to DKr65m (\$16m) in the first nine months of the year, from DKr68m the previous year. Sales rose 9 per cent to DKr6.01bn.

## Olivetti confirms job cut of 7,000

By Haig Simonian in Milan

OLIVETTI, the Italian computers and office equipment group, yesterday said sales for the first 10 months of this year were running ahead of the corresponding period in 1989. However, it made no forecasts for profits for the whole year.

Mr Vittorio Cassani, managing director, confirmed plans to reduce by 7,000 its workforce of 55,000 worldwide in response to the current severe downturn in the European computers business.

The cuts will come through a variety of measures, including a reduction in manufacturing outside Italy and a concentration of research and development activities in the south of the country. To soften the blow domestically, the company is seeking government approval for a one-off reduction in its retirement age next year, making way for the loss of up to 5,000 jobs in Italy.

Approval for the measure, which would lower the retirement age for men and women to 50 and 47 respectively, would allow the company to hire up to 1,000 additional workers in the economically depressed south, sweetening politically the impact of the job cuts.

## Valeo sells ignition business to Sagem

By William Dawkins in Paris

VALEO, France's main supplier of automotive parts, has sold its FF750m (\$100.6m) annual turnover ignition business to Sagem, the electronics and defence group. It is Valeo's ninth disposal this year.

No sales price is being revealed, but Valeo has already raised FF750m - more than its net profits for the first six months - from asset sales so far this year. The sell-off is part of its strategy of focusing

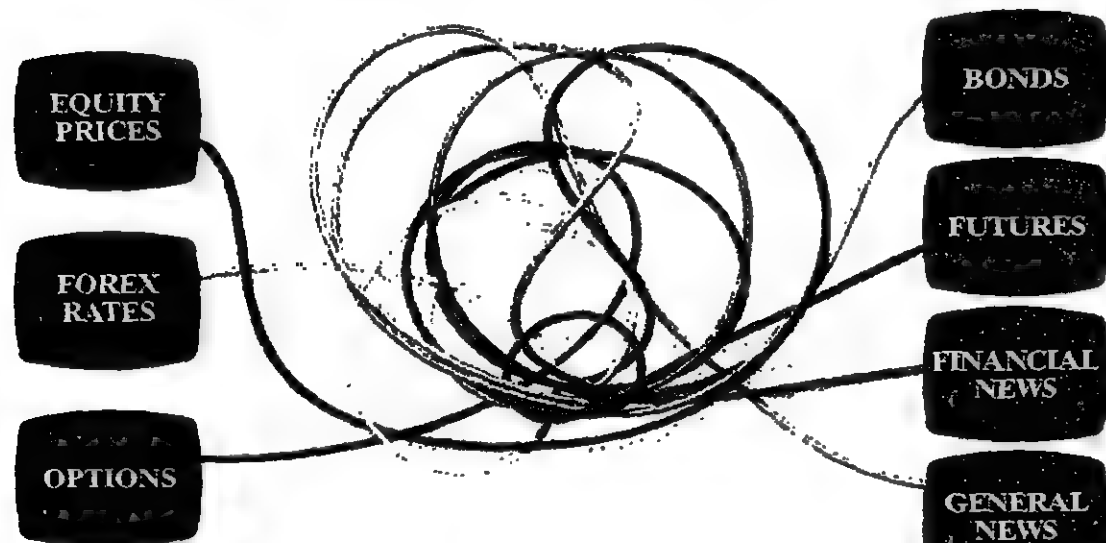
on products where it can hold European market leadership. The deal allows Sagem, which already makes dashboard instruments, to expand in engine controls.

Based at Saint-Flour, near the Loire, Sagem's ignition plant employed 800 people. Other recent sales include three other factories in France; Cartier Industrie, a plastic injection moulder; the instrumentation business of Delanair

in the UK; the cooling accessory business of Mitchell in Spain; and Hampton, a US producer of lighting units.

The disposals will also ease the strain on Valeo's balance sheet, burdened by the borrowings built up to fund an ambitious acquisition programme which climaxed with last year's FF1.5bn takeover of Blackstone, the US maker of cooling and air conditioning systems.

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## Bull

## GROUPE BULL

## ANNOUNCES TRANSFORMATION PLAN

Groupe Bull announced its plans to refocus the company's resources to confront the worldwide crisis facing the information systems industry. Groupe Bull expects the effect of this crisis to be a net loss before exceptional items of about FF 1 billion for the second semester of 1990, which follows a mid-year loss of FF 1,882 million.

The situation is a consequence of deep structural changes affecting the major manufacturers worldwide, said Francis Lorentz, chairman and CEO of Groupe Bull.

As a result, Lorentz announced Bull's Transformation Plan, which is aimed at accelerating implementation of the company's strategic objectives in light of the current environment.

"Our strategic orientation and our long-term objectives have not changed, but the acceleration of change in our industry requires us to accomplish in two years what we had planned to accomplish in four years", Lorentz said.

The Transformation Plan includes several actions. Long-term R&D and Product Simplification - Acceleration of its long-term Research and Development program to implement Bull's unified architecture, combining its GCOS and UNIVAC operating systems. This technical project, amounting to FF 11 billion will be funded through a multi-year contract with the French government.

The Research and Development budget for Zenith Data Systems, which is responsible for Groupe Bull's worldwide microcomputer business, will be increased 25 percent over current levels.

R&D will be managed for the first time on a worldwide basis with a unified budget under the direction of Roland Pompa, president and CEO of Bull HN Information Systems Inc. In addition to these long-term R&D commitments, Groupe Bull will simplify and focus its global offer on high-potential products, software application packages and professional services to targeted markets.

**Organizational Integration** - A new European management structure to position Bull to benefit from the opportunities of the single European market under the direction of Didier Ruffat, president and CEO of Bull SA (International). This new organization will include the Italian and British operations of Bull HN, other European affiliates, and East European countries, except

\* UNIVAC is a registered trademark of ATEB in the United States.

France, which will remain under the direction of Jean-Claude Albrecht, president and CEO of Bull SA (France). In the Far East, Bull HN and Bull SA operations will be merged and report to Bull HN.

## Industrial Optimization

Manufacturing operations will be consolidated, from 13 plants to 6 by the end of 1992 which will include:

- Two technology and assembly sites - Angers, France and Boston MA;
- Two assembly sites for large-volume products, principally microcomputers - Villeneuve-d'Ascq, France, and St-Joseph, NH;
- The Bull Peripherals industrial facility in Bullitt, France, and
- One Indian site primarily dedicated to small printers.

In addition, Bull plans to sell its plant in Joux-les-Tours, France, in 1991. Jean-Claude Albrecht will be in charge of worldwide manufacturing.

## Productivity Measures

The company plans to reduce its worldwide workforce about 5,000 as a result of its manufacturing consolidations, new organizational structures and the elimination of overhead staff and support not directly related to R&D, manufacturing, sales and services.

This reduction will be implemented from November 1990 through December 1991. It is in addition to the reduction of 2,500, which occurred in the first 10 months of 1990.

The distribution of the 5,000 reduction will be balanced between North America and Europe, of which about 1,100 will be in France.

## Focused activity

Groupe Bull will focus its efforts and resources on markets in which it can reach critical mass. This implies disinvestment or the search for partners to help achieve critical mass.

Thus, for example, Bull Peripherals will be established as an autonomous legal entity with equity positions available to one or more partners.

## Return to Profitability

The Transformation Plan is designed to yield a steady improvement of the operational margin of FF 4 billion over two years with a return to profitability in 1992.

In accordance with company policy the Transformation Plan was examined on November 7, 1990 by the Board of Directors of Compagnie des Machines Bull (CMB).

## ACCOR

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## DEADLINE FOR EXERCISING 1987 WARRANTS is 30 November, 1990

Shareholders are reminded that the deadline for exercising warrants issued in June 1987 is 30 November, 1990.

The warrants give the right to subscribe to Accor shares at the rate of 10 warrants per share, and at a subscription price per share of FF 700.

For information, shares were quoted at FF 745 and warrants at FF 4.50 on 5 November, 1990.

Effective from 1 December 1990, warrants will no longer be exercisable and will become worthless. Shareholders may exercise warrants through their stockbroker or bank.

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INTL COMPANIES AND FINANCE

# Cetus in negotiation with potential business partners

By Louise Kohoe in San Francisco

CETUS, one of the oldest and largest remaining independent US biotechnology companies, has given up its founder's dream of creating a fully integrated pharmaceuticals company and is actively seeking "strategic partners".

"It no longer makes sense to try to be an independent stand-alone pharmaceutical company," Mr Ronald Cape, the chairman and chief executive, told shareholders at the company's annual meeting this week. His admission has fuelled speculation that Cetus may follow the same path as Genentech, the US biotechnology industry leader, which sold 60 per cent of its stock to Roche Holdings earlier this year.

Cetus is widely believed to be seeking a deep-pocketed equity partner among the giants of the pharmaceutical industry.

"We have begun conversations with a number of potential business partners," Mr Cape said, without providing details. "We intend to maintain a low profile regarding our discussions with other companies."

Cetus's long-cherished plans to build an independent pharmaceuticals company began to unravel last July, when an advisory panel to the US Food



Ronald Cape: intends to maintain a low profile

and Drug Administration (FDA) unexpectedly declined to recommend approval of Cetus's key product, an anti-cancer drug called Proleukin or Interleukin-2.

Mr Robert Fildes, former president and chief executive of Cetus, charged that the FDA had treated Cetus unfairly. He resigned in July following the IL-2 disappointment and a new management team, headed by company founder Mr Ronald Cape, was appointed.

The new managers have attempted to smooth relationships with the FDA to try to

gain speedy approval for IL-2, but analysts say the company may still face months of delays and further testing before the drug can be sold in the US.

IL-2 has already been approved in six European countries, but Cetus had been counting on US approval to boost its revenues and return profits. Instead, Cetus's losses have deepened.

For its first fiscal quarter, ended September 30, it reported losses of \$15.7m, bringing cumulative losses to over \$150m. Even if Cetus wins US approval for IL-2, its problems will not be over.

Analysts predict that it could be two years before the company achieves profitability. There is also rising concern that IL-2, like other biotech drugs, will be judged too expensive when it finally does become available.

The most pressing issue for Cetus is the need to restore the confidence of its investors. Cetus stock closed on Tuesday at 84¢, compared with a 52-week high of \$2.24 in July.

Cetus will not conduct a "fire sale" of its assets, Mr Cape assured shareholders, but at its current market value, the company's parts may be worth more than the whole, according to some industry analysts.

## Woolworth up 14% on higher European profits

By Nikki Tait in New York

HIGHER profits from European operations and the US-based Kmart footwear retail business offset the fall in general US merchandise and clothing sales, leaving third-quarter profits up 14 per cent at Woolworth.

The New York-based group made \$80m after tax in the three months to October 27, up from \$70m in the same period of 1989. Earnings per share stood at 62 cents, against 54 cents. The improvement was based on revenues of \$2.47bn, also up by 14 per cent. Domestic revenues gained 5.1 per cent, while foreign revenues rose 20 per cent in dollar terms or 15 per cent if translated at year-end exchange rates.

The breakdown of the figures showed total operating profit up from \$110m to \$120m, but with specialty stores making \$97m against \$89m, while general merchandise overall contributed \$72m against \$53m.

For the nine months, profits rose to \$168m from \$152m, or 11.30 a share, against 11.19, on revenues ahead at \$6.7m, compared with \$6.05m.

At the luxury end of the shopper's market, Tiffany & Co, the New York-based jeweller, unveiled a 19 per cent improvement in third-quarter profits after tax at \$9.05m. Sales were 19 per cent higher at \$113.2m, with earnings per share up from 49 cents to 58 cents.

## Flat net income for Toys 'R' Us

By Karen Zager in New York

TOYS "R" US, the big US toy store chain, yesterday reported flat third-quarter net income of \$28.7m or 10 cents a share on sales which grew 14.9 per cent to \$1.65bn from \$1.42bn a year ago.

The quarter figures were better than expected and shares in Toys "R" Us added 3¢ to \$24 yesterday morning. For the first nine months net income grew 11.4 per cent to \$84.4m or 30 cents from \$79.3m or 27 cents on sales which rose to \$4.96bn from \$4.46bn. Earnings per share have been adjusted to reflect a three-for-two stock split on June 29 this year.

In 1991, the company, which claims to be the biggest specialty toy retail chain in the world, expects to open between 80 and 85 toy stores worldwide, including its first stores in Japan and Spain and 25 to 30 new Kids "R" Us stores.

## Rhône-Poulenc Rorer advances in third quarter

By Karen Zager in New York

RHÔNE-Poulenc Rorer, the pharmaceuticals company formed when France's Rhône-Poulenc took control of the US drug maker at the end of July, for more than \$300, yesterday reported improved third-quarter sales and income.

The company said net income in the third quarter was \$24m or 36 cents a share on sales of \$638m. A year earlier, Rorer alone had net income of \$19.8m or 54 cents on sales of \$580m.

At the end of the 1990 quarter there were 97.1m shares outstanding, against 44.5m at the end of the 1989 third quarter.

Mr Robert Cawthorn, chairman and chief executive, said sales increased 21 per cent and operating income before interest expenses and taxes surged 33 per cent when viewed on a pro-forma combined basis by

including Rhône-Poulenc's human pharmaceutical businesses in 1989.

Sales grew by 6.4 per cent in the quarter, excluding the impact of foreign exchange. Mr Cawthorn said sales growth was particularly strong in the company's cardiovascular products, led by Losol, a diuretic anti-hypertensive drug.

However, US sales of Maselex and Ascriptin fell in the third quarter.

For the first nine months, the company reported a net loss of \$3.02 a share, against net income of \$1.26 a year ago. However, the 1990 results were distorted by one-time charges. Excluding these, earnings in the first nine months of 1990 would have been \$1.01 a share. Sales in the first nine months were \$1.8bn against \$779m for Rorer alone in 1989.

## Further cuts at TWA

By Nikki Tait in New York

TRANS World Airlines, the deeply indebted airline headed by Mr Carl Icahn, is to cut capacity by a further 4 to 5 per cent on December 1. It is also laying off another 388 employees.

The latest cuts come a month after TWA said it was cutting around 450 jobs and curbing capacity by about 10 per cent. It confirmed yesterday the latest moves would mean the carrier's capacity would be running at about 14 per cent below the end-1989 levels.

TWA said the capacity cuts would not result in services to any cities being cut, although the numbers of flights which the carrier operates to virtu-

ally all cities would be reduced.

Yesterday, the carrier declined to comment on whether more surgery might be necessary, saying the economic situation made it "too difficult to speculate".

The company, which has around 37,500 employees, reported a loss of \$14.7m after tax in the third quarter, but was helped by a \$9.27m extraordinary surplus and \$6.56m of assets sale gains. The loss in the year to end-September stood at \$54.3m after \$166.8m of asset sale proceeds. In common with all airlines, its recent profits performance has been swayed by the hike in fuel costs.

## Trump deadline looms

By Nikki Tait in New York

AS THE deadline for a \$47.3m interest payment on the Trump Organisation's Taj Mahal bonds looms today, figures from the New Jersey Casino Control Commission spelt out details of the deteriorating position of the group's casino interests.

The Trump Plaza had revenues of \$20m in October, against \$26m in the same month a year earlier, while the Trump Castle saw a downturn from \$20.6m to \$17.2m. The Taj Mahal is the newest of the three Trump casinos in Atlantic City and was not operating a year ago, so no comparisons were available.

Trump Organisation, headed by New York property developer and casino owner, Mr Donald Trump, is widely expected to default on the Taj payment. The company has been attempting to reach an agreement to restructure the bonds

with the investors, but broke off negotiations late on Tuesday. Yesterday morning, Trump said there had been no change to this stalemate position.

Assuming no payment is made today, the breakdown in talks with the bondholders increases the chances that the Taj will be pushed into bankruptcy.

The bondholders' steering committee said last month, when it rejected Trump's initial proposals, that unless the deal was improved it believed investors would do better under bankruptcy proceedings - even if this triggered a collapse of the Trump Organisation generally.

However, the bondholders are not able to take any action until a default actually occurs, and even after that, there would normally be a 90-day "grace" period.

## Hees earnings improve

By Bernard Simon in Toronto

HEES International Bancorp, the hub of the industrial and financial services empire controlled by Toronto's Bronfman brothers, posted a small increase in third-quarter earnings. But it warned of downward pressure to come as the recession took hold on most sectors of Canadian business.

Total earnings advanced to C\$66m (US\$66.8m) or 63 cents a share from C\$63.8m or 63 cents. Most of the growth came from

Hees' merchant banking activities, with revenues from this source more than doubling to C\$130.5m. Income from corporate investments slipped to C\$35.8m from C\$38.5m.

Hees has interests, held through a complex web of public and private companies, in such leading Canadian groups as Noranda (forestry and mining), Royal Trust (financial services) and Bramalea (home-building).



# The Republic of Argentina

has privatized

## Empresa Nacional de Telecomunicaciones (ENTel)

through the sale of 60% of the Ordinary Shares of

Telecom Argentina STET-France Telecom S.A.

Telefónica de Argentina S.A.

to

Nortel Inversora S.A.

to

Compañía de Inversiones en Telecomunicaciones S.A.

a consortium led by

a consortium led by

STET-società finanziaria telefonica p.a.

France Cables et Radio S.A.

J.P. Morgan & Co. Incorporated

Compañía Naviera Perez Companc S.A.

Telefónica International Holding BV

Citicorp

Inversora Catalinas S.A.

for

\$214,000,000 in Cash

\$5,028,000,000 in Sovereign Debt Paper

and

\$380,000,000 in Long-Term Notes

The undersigned acted as financial advisors to Empresa Nacional de Telecomunicaciones in this transaction.

MORGAN STANLEY & CO.

Incorporated

BANCO ROBERTS S.A.

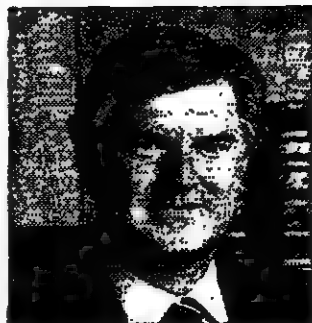
Argentina

November 8, 1990

## CURRAGH RESOURCES INC. DIRECTOR ELECTIONS



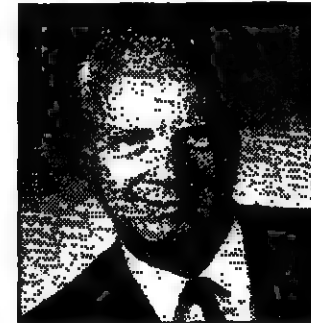
George S. Moore



Rodney F. Price



John N. Turner, P.C., Q.C.



George E. Whyte, Q.C.

Mr. Clifford H. Frame, Chairman and Chief Executive Officer of Curragh Resources Inc., is pleased to announce the recent elections of Mr. George S. Moore, Mr. Rodney F. Price, The Right Honourable John N. Turner, P.C., Q.C., and Mr. George E. Whyte, Q.C. to the board of directors of the Corporation.

Mr. Moore, a resident of Spain, is a former Chairman of Citibank Corporation. Mr. Moore's principal directorships include Mercantile Stores Company Inc.; Director Emeritus of W.R. Grace & Co.; M/s Unipepsi Bottlers Ltd., Delhi; Asturias de Zinc, S.A.; the Spain Fund; and Madrid Business School. Mr. Moore is also President of the Hispanic Society of America and an honorary director of the Metropolitan Opera Association, Inc.

Mr. Price is Managing Director of Pioneer International Limited of Australia. Pioneer has interests in concrete, asphalt and cement; petroleum refining and production; and oil and gas exploration. Mr. Price is a director of Ampol Exploration Limited.

Mr. Turner is a partner in the Toronto law firm of Miller Thomson. He was leader of the Liberal Party of Canada from June, 1984 to June, 1990. As a member of the Federal Parliament of Canada, Mr. Turner served as Prime Minister, and most recently as Leader of the Opposition. Mr. Turner is a director of The Dominion of Canada General Insurance Company, The Empire Life Insurance Company, and Beatrice Foods Inc.

Mr. Whyte is Vice Chairman of Curragh Resources Inc., and a director of Sun Alliance Insurance Company.

Curragh Resources Inc. is one of the world's largest producers of lead and zinc concentrates, and is publicly traded on the New York, Toronto, and Montreal stock exchanges.

Curragh's trading symbol is CZP.

Wells Fargo & Company  
US\$200,000,000  
Floating rate subordinated  
capital notes due 1998

In accordance with the provisions of the notes, notice is hereby given that for the interest period 15 November, 1990 to 15 February, 1991 the Notes will carry an interest rate of 8 1/4% per annum. Interest payable on the relevant interest payment date 15 February, 1991 will amount to US\$209.24 per US\$1,000 note.

Agent: Morgan Guaranty Trust Company  
JPMorgan



This announcement is neither an offer to exchange nor a solicitation of an offer to exchange any securities. The Exchange Offers are made only by the Prospectus and Consent Solicitation and the related Letters of Transmittal (and, if applicable, Consents and Letters of Transmittal), and the Exchange Offers are not being made to, nor will tenders be accepted from, holders of securities in any jurisdiction in which the making or acceptance thereof would not be in compliance with the securities or blue sky laws of such jurisdiction.

### Notice of Exchange Offers and Consent Solicitations by

## Burlington Northern Railroad Company

Burlington Northern Railroad Company (the "Company") is offering, upon the terms and subject to the conditions contained in its Prospectus and Consent Solicitation dated November 8, 1990 (the "Prospectus") and the related Letters of Transmittal (and, if applicable, Consents and Letters of Transmittal) (collectively, the "Letters of Transmittal"), and together with the Prospectus, the "Exchange Offers"), to exchange the following new securities of the Company (collectively, the "New Bonds") for the following outstanding securities of the Company (collectively, the "Old Debt Securities"):

For Each \$1,000 Principal Amount of the Following Old Debt Securities	The Exchanging Holder Will Receive \$1,000 Principal Amount of the Following New Bonds
<b>Great Northern Railway Company</b>	<b>Burlington Northern Railroad Company</b>
General Mortgage Bonds	Consolidated Mortgage Bonds
3 1/4%, Series O, due 2000	6.55%, Series K, due 2020
2 5/8%, Series Q, due 2010	3.80%, Series L, due 2020
<b>Northern Pacific Railway Company</b>	
General Lien Railway and Land Grant	
3% Bonds, due 2047	3.20%, Series M, due 2045
Prior Lien Railway and Land Grant	
4% Bonds, due 1997	8.15%, Series N, due 2020
<b>St. Louis-San Francisco Railway Company</b>	
Income Debentures, 5%, Series A, due 2006	6.55%, Series O, due 2020
First Mortgage Bonds, 4%, Series A, due 1997	8.15%, Series P, due 2020

The New Bonds issued pursuant to the Exchange Offers will not be redeemable. The New Bonds will rank equally (except as to sinking fund and other analogous funds established for the exclusive benefit of a particular series) with bonds of all series issued or to be issued in the future under the Consolidated Mortgage. The New Bonds are entitled to the rights and privileges contained in, and are subject to the terms and provisions of, the Consolidated Mortgage.

Holders of St. Louis-San Francisco Railway Company First Mortgage Bonds, 4%, Series A, due 1997 (the "SL-SF Bonds") and St. Louis-San Francisco Railway Company Income Debentures, 5%, Series A, due 2006 (the "SL-SF Debentures") and, together with the SL-SF Bonds, the "SL-SF Securities") who desire to accept an Exchange Offer will be required to consent to certain amendments to the respective indentures pursuant to which such SL-SF Securities were issued (the "Proposed Amendments"). The Company is also soliciting consents to the Proposed Amendments from holders of SL-SF Securities who do not desire to accept an Exchange Offer. As more fully described in the Exchange Offers, if the Proposed Amendments are approved and become effective, the Company will make a payment at the rate of \$10.00 for each \$1,000 principal amount of SL-SF Securities consenting to the Proposed Amendments, regardless of whether the holder of SL-SF Securities so consenting has tendered such SL-SF Securities into an Exchange Offer.

Interest on each series of New Bonds will commence to accrue as of the applicable Acceptance Date (as defined in the Prospectus). Interest on Old Debt Securities accepted for exchange into such series of New Bonds will accrue through the day preceding the applicable Acceptance Date. Such accrued but unpaid interest will be paid as soon as practicable after such Old Debt Securities are accepted for exchange.

### THE EXCHANGE OFFERS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON DECEMBER 7, 1990 UNLESS EXTENDED.

Upon the terms and subject to the conditions of the Exchange Offers, the Company will accept all Old Debt Securities properly tendered and not withdrawn prior to the expiration of the applicable Exchange Offer. All tenders of Old Debt Securities are irrevocable, except that Old Debt Securities tendered pursuant to the Exchange Offers may be withdrawn at any time prior to 12:00 midnight, New York City time, on December 7, 1990 and, unless theretofore accepted for exchange by the Company, may be withdrawn at any time after 5:00 p.m., New York City time, on February 5, 1991. Consents to the Proposed Amendments may be revoked in accordance with the procedures described in the Prospectus at any time prior to the Consent Date (as defined in the Prospectus). Each Exchange Offer may be withdrawn, cancelled, modified or terminated by the Company in certain events.

Each of the Exchange Offers is subject to certain conditions as specified in the Prospectus, including, in the case of the Exchange Offers to holders of SL-SF Securities, that there have been received prior to the applicable Expiration Date (as defined in the Prospectus) valid and unrevoked consents to the Proposed Amendments by the holders of at least 66 2/3% of the outstanding aggregate principal amount of the SL-SF Bonds and the SL-SF Debentures, respectively. The Company, in its sole discretion, may waive any of these conditions, in whole or in part, at any time and from time to time.

Merrill Lynch & Co. is acting as Dealer Manager for the Exchange Offers. Each Soliciting Dealer (including the Dealer Manager in its capacity as a Soliciting Dealer) who has executed a Soliciting Dealer Agreement and is designated in a Letter of Transmittal will be paid a fee of \$5.00 per \$1,000 principal amount of Old Debt Securities covered by such Letter of Transmittal and exchanged pursuant to an Exchange Offer through such Soliciting Dealer's efforts.

In any jurisdiction where the securities or blue sky laws require the Exchange Offers to be made by a licensed broker or dealer, the Exchange Offers are being made on behalf of the Company by one or more brokers or dealers which are licensed under the laws of such jurisdiction.

The Prospectus and the Letters of Transmittal contain important information which should be read before any action is taken by holders of the Old Debt Securities. Tenders may be made and consents may be delivered only by properly completed and duly executed Letters of Transmittal and in conformance with the terms thereof.

Questions or requests for assistance or for additional copies of the Prospectus and the Letters of Transmittal should be directed to the Information Agent at its address and telephone number set forth below. Requests by brokers and dealers for copies of the Soliciting Dealer Agreement should be directed to the Dealer Manager at its address and telephone number set forth below:

The Information Agent for the  
Exchange Offers and Consent Solicitations is:

### KISSEL BLAKE INC.

25 Broadway  
New York, New York 10004  
Call Collect (212) 344-6733

The Dealer Manager is:

### Merrill Lynch & Co.

North Tower  
World Financial Center  
New York, NY 10281-1305  
Call Collect (212) 449-4900

November 15, 1990

Approved by Merrill Lynch International Limited, member of the Securities Association.

## INTL COMPANIES AND FINANCE

# Lion Nathan surges to NZ\$75m at pre-tax level

By Terry Hall in Wellington

LION NATHAN, the Auckland-based brewer, yesterday reported a 60.7 per cent rise in pre-tax profits to NZ\$75.6m (US\$46.4m) from NZ\$47.02m for the year to August, on sales of NZ\$2.51bn, down from the previous year's NZ\$2.8bn.

This is the group's final result before taking into account its acquisition of 50 per cent of Bond Brewery's Australian interests. A restated balance sheet including Lion's A\$414m (US\$323.5m) investment in National Brewing Holdings, the Bond joint venture, showed debt, including current liabilities, rising to NZ\$1.5bn from NZ\$1.38bn.

Mr Douglas Myers, Lion

managing director, said yesterday he anticipated the investment would show a neutral impact on earnings in the next financial year. "Initially, National Brewing Holdings will not distribute cash dividends until capital spending of about A\$20m has been completed," he said.

He said the directors were pleased with Lion's result for the year and looking confidently toward a strong boost in earnings in 1991. "It is up because we have got our interest costs down; we have improved our productivity very considerably."

Commenting on Bell Resources, the Australian group which holds the other 50

per cent of the former Bond brewing interests he said: "They could exit [the brewing joint venture] tomorrow if they wanted to. They see a very considerable upside. If they want to stay there, that's fine."

"We have 100 per cent control and paid 50 per cent of the price." Although he was "not intimating" that Bell Resources was going to sell, he believed that would be Bell's most likely action some time in the next 10 years.

During the year, Lion sold its food retail interests to Dairy Farm International of Hong Kong for NZ\$250m, and had property sales of NZ\$82.11m.

Lion maintained an interim dividend of 5.5 cents a share.

# Boost to exports lifts Withbank Colliery

By Philip Gawth in Johannesburg

WITHBANK COLLIERY, the coal arm of the South African Rand Mines group, profited from substantially increased export sales to lift both turnover and profit in the year to the end of September.

Coal sales rose by 12 per cent from 19.8 tons to 22.2 tons, turnover was 36.7 per cent up at R1.69bn, and after-tax profit rose by 18.2 per cent from R163.4m to R193.2m.

The purchase of an increased stake in the Middelburg Mine joint venture from BP Southern Africa helped boost profits and export volumes.

The acquisition was the main reason for the group's exports growing from 5.7m tons in 1989 to 7.9m tons. South Africa exported 42.8m tons of coal through Richards Bay in 1989. Better export prices and a weaker rand/dollar exchange rate also helped profits.

Domestically, the group benefited from increased prices and the first full-year contribution from the Majuba colliery.

Although market share was maintained, Mr Allen Sealey, chairman, noted that the inland coal market is in a mature phase of development and relies on new capital investment for growth.

"Regrettably, the current business and political climate has militated against new investment and the overall inland market has not increased," Mr Sealey said.

Withbank Colliery, like other groups, is suffering from lower-than-anticipated purchases by Eskom, the electricity supply generator, which has overcapacity.

Mr Sealey, anticipating the imminent demise of trade sanctions against the country, said such action would broaden the market for South African coal exports.

He said high costs and a firm currency were likely to lead to a reduced profit in 1991. Earnings per share increased to R24.69 from R23.69 and the total dividend was 50 cents higher at 24 pence.

# Gulf affects Japanese oil profits

By Emiko Terazono in Tokyo

FOUR Japanese oil distributors reported that higher petroleum prices led to a sales increase for the six months to end-September, but pre-tax profits were sluggish at two of the companies due to crude oil price increases caused by the Gulf crisis.

Cosmo Oil's pre-tax profits were down 9.1 per cent as increased material costs hit profitability, despite foreign exchange gains. Operating profits declined 35.5 per cent to Y10.7bn (82.5m).

General Sekiya posted a 36.8 per cent gain in pre-tax profits despite a 39.1 per cent decline in operating profits, due to foreign currency exchange gains.

Mitsubishi Oil saw a 35.4 per cent decline in operating profit blamed on a delay in shifting crude oil price rises on to products, as well as an increase in depreciation costs. A 37 per

JAPANESE OIL DISTRIBUTORS Results for half year to September 1990					
Company	Ybn	% change	Ybn	% change	Notes
Cosmo Oil	3.0	(9.1)	733.8	7.0	
General Sekiya	3.7	36.8	248.0	9.0	
Mitsubishi Oil	5.9	3.8	478.3	37.0	
Nippon Oil	18.1	46.6	954.7	13.2	

cent jump in sales was caused by a change in the company's accounting method; the company said that under the conventional method, sales would have shown a 15.5 per cent rise.

Nippon Oil, the country's largest distributor of petroleum products, reported a 46.6 per cent rise in pre-tax profits due to a steady demand and a large foreign currency gain. After-tax profits also jumped 48.4 per cent.

Most companies are expect-

ing product price rises, which should contribute to their performance for the full year.

Cosmo Oil expects pre-tax profit to double, reflecting high demand, but forecasts its after-tax profit to gain a modest 17.4 per cent. General Sekiya estimates its pre-tax profits to be Y10 bn, up from Y3.4bn last year.

Mitsubishi Oil expects pre-tax profits to rise 38 per cent at Y15 bn, and Nippon Oil's pre-tax profits are expected to increase 41 per cent to Y30 bn.

# Yamaha Motor up 71% on buoyant trade

By Emiko Terazono

YAMAHA Motor, Japan's leading motorcycle maker, posted a sharp 71.3 per cent rise in its pre-tax profits to Y5.7bn (44m) for the six months to end-September.

Reporting its unconsolidated results for the first half, the group posted a 12.1 per cent

rise in sales to Y219.5bn and after-tax profits 2.5 per cent ahead at Y1.8bn.

The yen's fall against the dollar earlier this year contributed to the favourable results as did buoyant sales of boats and other products.

For the full year, although

Yamaha Motor anticipates a worsening of its non-operating balance due to rising interest payments, it expects pre-tax profit to rise almost 30 per cent to Y8.5bn.

Sales for the year are expected to grow 9 per cent to Y450bn.

# Yamaha Corp sounds a flat note in first half

By Emiko Terazono

YAMAHA Corp, the world's largest maker of musical instruments, reported that sales for the first half to end September rose only 0.6 per cent to Y203.8bn (15.7bn).

The Japanese company said that sluggish sales of musical instruments and audio equipment contributed to the disappointing results. The transfer of its leisure division to a subsidiary also affected the performance.

Pre-tax profits rose 0.6 per cent to Y9bn, due to an improvement in the balance on financial items.

Sales of audio equipment fell 11.1 per cent to Y17.8bn

because of increasing competition, while electronic keyboard sales fell 17.8 per cent to Y15.2bn caused by sluggish exports.

Sales of items other than musical instruments fared well, with household utensils increasing 17.9 per cent to Y24.5bn, and sporting goods rising 10.9 per cent to Y14.3bn.

The company sees a continuing decline in audio and electrical musical instruments this year, and has revised forecasts for the full year downward, with sales at Y392bn, down from a previous estimate of Y400bn, and pre-tax profits down 1 per cent at Y12bn.

# Reliance pushes up sales by 28% at six months

By R.C. Murthy in Bombay

RELIANCE Industries, India's second largest private sector company which produces textiles, synthetic fibres and their raw materials, has reported a 28 per cent rise in sales to Rs10.37bn (367m) in the first half of 1990 from Rs8.05bn a year earlier.

Net profits advanced to Rs810m from Rs662m, almost matching the Rs906m for the whole of the previous year, which was a very poor one for the group.

Mr Dhirubhai Ambani, chairman, yesterday told about 20,000 shareholders at the group's annual meeting at a Bombay cricket stadium, that the next six months held out even better prospects.

Profits before interest and

depreciation jumped by 35 per cent to Rs2.56bn, reflecting the upturn in the market for synthetic fibres and yarn.

The company proposes to build an Rs8bn natural gas cracker at Hazira in the western state of Gujarat, to integrate its production facilities and plans to float a Rs5.7bn debenture issue early next year to finance the project.

Mr Ambani said the company has been given government approval to set up a wholly-owned subsidiary called Reliance Europe in the UK to handle its worldwide export effort.

The group's ratio of gross profits to sales rose to 24.7 per cent from 23.36 in the second half last year.

# Fedfood enjoys growth in earnings and turnover

By Philip Gawth

FEDFOOD, the food holding company in the Federale Volksbelegings, enjoyed turnover and earnings growth in the six months to the end of September following strategic acquisitions and solid performances from its snack-food and frozen foods divisions.

Turnover rose 16 per cent to R887.7m (R273m) from R828.2m and operating income rose 18 per cent to R50.9m from R43.1m. Earnings growth was dampened by the effect of higher interest rates which saw growth in earnings per share kept down to 10 per cent, rising to 80.1 cents from 72.5 cents. The dividend was increased by 12 per cent to 19

cents from 17 cents per share.

Mr Jan du Toit, managing director, said the satisfactory performance amid difficult trading conditions could be due to the group acquiring controlling interests in Sea Plant Products and Patoma Foods.

Sea Plant Products, which harvests and exports abalone, had the effect of diversifying the group's fishing activities while Patoma, which processes and exports tropical fruit and vegetables, is considered to have good export promise.

Mr du Toit said continued tight trading conditions were expected, but the board thought the current earnings trend would continue.

National Westminster Finance B.V.  
(Incorporated in the Netherlands with limited liability)  
U.S.\$200,000,000 Junior Guaranteed FRNs  
Guaranteed on a senior basis to  
payment of principal and interest by

National Westminster Bank PLC  
(Incorporated in England with limited liability)  
Notice is hereby given that the Rate of Interest has been fixed at 8.375% and that the interest payable on the relevant Interest Payment Date May 15, 1991 against Coupon No. 14 in respect of U.S.\$25,000 nominal of the Notes will be U.S.\$1,052.69 and in respect of U.S.\$5,000 nominal of the Notes will be U.S.\$210.54.

November 15, 1990, London  
By: Citibank, N.A. (Citi Dept), London Branch, Agent Bank

U.S. \$200,000,000



Exterior International Limited  
(Incorporated with limited liability in the Cayman Islands)

Guaranteed Floating Rate Notes due 2001  
Unconditionally Guaranteed as to payment of principal and interest by

Banco Exterior de España, S.A.  
(Incorporated with limited liability in the Kingdom of Spain)

Notice is hereby given that for the six months Interest Period from November 15, 1990 to May 15, 1991 the Notes will carry an Interest Rate of 7 3/4% per annum. The interest payable on the relevant Interest Payment Date, May 15, 1991 will be U.S. \$399.08 per U.S. \$10,000 principal amount of Notes.

By: The Chase Manhattan Bank, N.A.  
London, Agent Bank

November 15, 1990



Bankers Trust  
International Capital N.V.  
(Incorporated in the Netherlands Antilles)  
U.S.\$200,000,000  
Guaranteed Floating Rate Subordinated Notes Due 1996

For the three months  
18th November, 1990 to 19th February, 1991  
the Notes will carry an interest rate of 8 1/4% per cent  
per annum and interest payable on the relevant  
Interest Payment Date 19th February, 1991 will be  
US\$216.06 per US\$10,000 note.

National Westminster Bank PLC  
Group Treasury Settlements, London - Agent Bank

CARPS Limited  
(Incorporated with limited liability in the Cayman Islands)

U.S. \$100,000,000

Secured Floating Rate Notes due 1992

For the period 14th November, 1990 to 14th May, 1991 the Notes will carry an interest rate of 8 1/4% per annum with coupon amount of U.S.\$4,147.50 per U.S. \$100,000 Notes payable on 14th May, 1991.

Bankers Trust  
Company, London

Agent Bank



INTERNATIONAL CAPITAL MARKETS

Tory leadership challenge prompts bond sell-off

By Stephen Fidler in London and Patrick Harverson in New York

THE CHALLENGE for the leadership of the Conservative Party prompted a sell-off in British government bonds, with longer maturity issues falling by 1/2 point or more.

The announcement by Mr Michael Heseltine of his intention to stand in a leadership election among Conservative MPs to lead his party and thus head the government extinguished some early morning gains. Sterling dropped convincingly below DM2.850 towards DM2.860 on the move.

The losses were limited by the view in some quarters that a prime minister more committed to Europe may prove an electoral asset and improve prospects for the economy.

The active December gilt contract on the London Financial Futures Exchange (Liffe) slipped to close at 88.12 from the opening 88.24. In the cash market, one long benchmark - the 11% issue of

GOVERNMENT BONDS

3005-07 - closed at 101 1/2 to yield 11.5 per cent, off more than 1/2 point on the day.

Traders said the leadership struggle was encouraging some foreign selling of gilts, and switching into other European bonds, including the Ecu which is seen in some quarters as offering value right now.

Some were holding out hopes for interest rate cuts after the leadership issue was resolved. This was because the general strength of the D-Mark now allowed sterling more leeway to depreciate against the peseta, the strongest currency in the exchange rate mechanism of the European Monetary Fund. Sterling can now dip to DM2.850, compared with 2.860 when it joined the ERM last month.

TRADING was subdued in the US Treasury bond market with prices slightly lower during the morning as dealers remained on the sidelines awaiting a signal from the Federal Reserve that it was easing monetary policy.

The announcement early in the session that retail sales in October rose by 0.1 per cent, compared with a 1.8 per cent increase in September, did little to stimulate interest among traders. The figure was in line with market expectations and

BENCHMARK GOVERNMENT BONDS									
Coupon	Set Date	Price	Change	Yield	Week High	Month High	Week Low	Month Low	Open
UK GILTS									
10.000	08/92	103.01	-0.02	11.61	11.50	11.82	11.45	11.45	11.45
8.000	03/90	103.00	-0.02	11.38	11.28	11.48	11.23	11.23	11.23
5.000	10/88	103.00	-0.02	11.04	10.93	11.01	10.81	10.81	10.81
US TREASURY									
8.500	11/90	100.26	+0.02	8.26	8.24	8.28	8.20	8.20	8.20
8.750	08/90	100.26	+0.02	8.32	8.30	8.36	8.24	8.24	8.24
JAPAN									
No 179	09/90	94.6207	+0.112	7.78	7.82	8.05	7.65	7.65	7.65
No 129	03/90	94.1612	+0.028	7.48	7.49	7.78	7.38	7.38	7.38
FRANCE									
10.000	10/90	99.9800	-0.110	9.00	9.03	9.00	8.97	8.97	8.97
FRANCE									
BYAN	11/95	95.1968	-0.072	10.27	10.18	10.22	10.08	10.08	10.08
OAT	03/90	95.3800	-0.100	10.30	10.28	10.36	10.18	10.18	10.18
CANADA									
10.500	09/91	99.0500	-0.400	10.65	10.70	11.20	10.50	10.50	10.50
NETHERLANDS									
9.250	11/90	100.3900	-0.080	8.19	8.20	8.23	8.16	8.16	8.16
AUSTRALIA									
13.000	07/90	102.0432	+0.112	12.82	12.81	13.37	12.61	12.61	12.61

London closing. \*Denotes New York morning session. \*Yields: Local market standard. Prices: UK, US, UK in \$2nd, others in decimal.

Technical Data/LAS Price Sources

were modestly in the ascendancy and the market slipped by up to 10 pence.

The news being viewed positively was the release of wholesale price inflation data for October which showed a rise of 0.6 per cent - but if the effects of oil price rises are excluded, a drop of 0.5 per cent.

But there was still underlying uncertainty about the Federal budget position and the Bundesbank took the opportunity to nudge short-term interest rates upwards through operations in the money markets. Three-month money rates touched 9 per cent. The German state railway announced that it would launch an

bond issue next week.

Trading was fairly active, with 72,000 contracts trading on the London market. The contract and a further 24,000 in the contract for March delivery. This compares with the 24,000 contracts being traded in the long-gilt for the active December month. The December contract finished at about 81.98, compared with 82.08 at yesterday's close and the day's high of 82.15.

SOME nervousness was evident in the French market, itself beset by political and social worries, which underperformed against its German equivalent again. The relative weakness of the franc, following the recent French interest rate cut, undermined its performance.

Traders reported significant domestic selling in the short-end of the market. At the longer end, the 8 1/2 per cent issue of 2000 fell 25 centimes to 88.30/40.

THE STRENGTH of the D-Mark was one factor in the German government bond market, which was being pulled in two directions - opposing forces. The negative factors

G10 bank governors set netting standards

By David Lascelles, Banking Editor

A SET of standards for the growing number of netting schemes being introduced by central bank governors of the Group of Ten countries.

Netting systems permit banks to reduce their risks and costs by netting out the payments they owe each other rather than paying the gross amount. But bank supervisors are worried that such schemes may create a false sense of security or contain concealed risks.

In a report today the G10 governors say that netting schemes need to be examined carefully. But they agree that they have the potential for increasing the efficiency and stability of interbank payment systems. So they have endorsed a set of minimum standards.

The report, prepared by a group headed by Mr Alexander Lamfalussy, the general manager of the Basle-based Bank for International Settlements, says that netting schemes must have a well-founded legal basis, and must be clearly understood by participants.

There should also be clearly defined procedures for managing risks, particularly in the case where a scheme member fails to meet its obligations.

This could be done either through an agreement for participating banks to share losses, or for the central clearing house to maintain a large enough reserve to meet worst case losses.

The governors agreed that netting schemes should be subject to oversight by the banking authorities. Where the authorities thought netting schemes failed to meet the standards, banks would be advised that participation would constitute "an unsafe and unsound banking practice".

The report is principally concerned with netting schemes that include cross-border arrangements and cover several currencies. But domestic schemes will also be reviewed in light of the report.

The standards have been produced at a time when few netting schemes are actually in operation. But several are planned. In London, the most important is FXnet for the foreign exchange market. But a larger one, Schenect, is planned for next year.

Some schemes are run by groups of banks. Others are provided as a service, like the dollar netting scheme run by Chase Manhattan Bank.

Hungarian move by John Govett

By Nicholas Denton in Budapest

WESTERN investment funds yesterday concluded the \$7m purchase of 31 per cent of state-controlled Technoimpex, the largest Hungarian trading company, in a path-breaking privatisation by private placement.

The Kuwaiti Investment Office (KIO), owned by the Kuwaiti state, bought \$2m-worth of the tranche and the Hungarian Investment Company, an investment fund managed by Britain's John Govett, acquired the remaining \$5m, according to Mr Heinrich Pecina, director of CA Investment Banking, the Austrian lead manager of the transaction.

KIO's maiden investment in Hungary is one of its first long-term commitments since the Gulf crisis.

A further placement after a capital increase planned for early next year will take the foreign share of Technoimpex to 40 per cent. The state holding would be reduced to a 46 per cent stake, an unprecedented surrender of majority ownership of one of its trading companies.

The deal is the most sophisticated private placement of shares in a Hungarian state-owned company and opens the way to further use of this method of privatisation.

That would enhance the prospects of the investment funds committed to Hungary; they have been partly closed out by the authorities' emphasis on stock exchange flotation and by Hungarian companies' frequent preference for strategic rather than passive investors.

"We are certainly creating food for the funds," said Mr Pecina.

Technoimpex, a general trading house with a focus on machine tools and machinery, made a profit before tax of Ft424m (\$69.8m) in 1989 on turnover of Ft1.65bn.

The company handled trade amounting to Ft30bn last year.

CONTRACTS & TENDERS

TURKISH AIRLINES INC.

Announces that Jet fuel A-1 required for the period of January 1st 1991 (Inclusive)- December 31st 1991 (Inclusive) at European, Middle East, Far East and U.S.A. airports will be purchased under sealed tender by adjudication. Bidders must deliver their proposal on or before 22nd November 1990 10.00am local time to the Turkey address below. Bidders wishing full information on bidding and list of technical and administrative conditions should contact:

Turkish Airlines Inc.  
11-12 Hanover Street  
London W1R 9HF

or  
Directorate Of Purchasing And Stock Control Department,  
Ataturk Airport, Turkish Airlines Inc.  
General Management Building, B Block Floor A,  
Istanbul Turkey.

Telex: 28871

Tel: 010 901 574 74 05 /  
010 901 574 73 00 ext. 1004 or 1250  
Fax: 010 901 574 74 44

LEGAL NOTICES

FINCH PRIDE LIMITED T/A JUSTRITE CONTRACTS

NOTICE IS HEREBY GIVEN, pursuant to section 40(3) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at The Wolsey Room, Post House Hotel, Braintree, Essex, on 22 November 1990 at 10.00 am for the purpose of having laid before it a copy of the report prepared by the administrative receivers under section 43 of the said Act. The meeting may, if it thinks fit, establish a committee to oversee the functions conferred on creditors' committees by or under the Act.

Creditors are only entitled to vote if:

(a) they have delivered to me at Cork Quay, Dublin, no later than noon on 11 November 1990, written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provisions of Rule 2.11 of the Insolvency Rules 1986; and

(b) there has been lodged with me any proof which the creditor intends to be used on his or her behalf.

Please note that the original proof signed by or on behalf of the creditor must be lodged at the address mentioned; photocopies (including telexed copies) are not acceptable.

Dated this 7th day of November 1990

John P. Phipps  
Joint Administrative Receiver

TOBACCO DOCK DEVELOPMENTS LIMITED

Registered number: 198728  
Trading name: Tobacco Dock Developments Limited  
Nature of business: Developers  
Trade classification: 33  
Date of appointment of administrative receiver: 14 November 1990  
Name of person appointed the administrative receiver(s):  
Name of person appointed the administrative receiver(s):  
Name of person appointed the administrative receiver(s):  
Name of person appointed the administrative receiver(s):  
Name of person appointed the administrative receiver(s):  
Name of person appointed the administrative receiver(s):  
Name of person appointed the administrative receiver(s):  
Name of person appointed the administrative receiver(s):  
Name of person appointed the administrative receiver(s):  
Name of person appointed the administrative receiver(s):

Notice to Noteholders

Prospect International High Income Portfolio N.V.

Up to U.S. \$82,500,000  
Senior Floating Rate Notes due 1998  
(of which U.S. \$41,250,000 has been issued)

Notice is hereby given that the Interest Rate for the period from 14th November, 1990 to 14th December, 1990 is 8.3625%. The Floating Rate Note Interest Amount payable on 14th December, 1990 is U.S. \$6.97 per U.S. \$1,000.

By: The Chase Manhattan Bank, N.A. London, Agent Bank

U.S. \$100,000,000

Den Danske Bank

(Incorporated in the Kingdom of Denmark with limited liability)

Perpetual Subordinated Floating Rate Notes

In accordance with the provisions of the Notes, notice is hereby given that for the interest period from November 15, 1990 to May 15, 1991, the Notes will carry an interest rate of 8 1/4% per annum. The interest payable against Coupon No. 15 on the relevant interest payment date, May 15, 1991 will be U.S. \$4.74.

By: The Chase Manhattan Bank, N.A. London, Agent Bank

November 15, 1990

YORKSHIRE BUILDING SOCIETY

£100,000,000

Floating Rate Notes 1994

In accordance with the terms and conditions of the Notes, notice is hereby given that for the three month interest period from (and including) 14th November, 1990 to (but excluding) 14th February, 1991, the Notes will carry a rate of interest of 13.975 per cent per annum. The relevant interest payment date will be 14th February, 1991 and the Coupon Amount per £50,000 Note will be £1,761.23

Hambros Bank Limited Agent Bank

November 15, 1990

FLOATING RATE DEPOSITARY RECEIPTS DUE 1997

issued by The Law Debenture Trust Corporation Ltd evidencing entitlement to payment of principal and interest on deposits with

Banca Nazionale del Lavoro

(Incorporated as an Istituto di Credito di Diritto Pubblico in the Republic of Italy)

London Branch

Notice is hereby given that the Rate of Interest for Coupon No. 22 has been fixed at 8.3125% per annum and that the interest payable on the relevant Interest Payment Date, February 15, 1991 in respect of US\$10,000 nominal of the Receipts will be US\$212.43 and in respect of US\$250,000 nominal of the Receipts will be US\$5,310.76.

November 15, 1990, London

By: Citibank, N.A. (CSD Dept.), Agent Bank CITIBANK



IN ORDER TO MAKE IT MORE LIQUID, ELF AQUITAINE IS SPLITTING ITS SHARE IN TWO

As of November 23, 1990, the par value of each share will be split in two. Therefore every shareholder with ten shares will own twenty for the same total value. The split will allow investors to have better access to ELF AQUITAINE's share.



Sparekassen Bikuben A/S

(A Savings bank established under Danish Banking Law)

U.S. \$45,000,000

Floating Rate Subordinated Notes due 1996

Holders of Floating Rate Subordinated Notes of the above issue are hereby notified that for the interest period from 16th November, 1990 to 16th May, 1991 the following information will apply:-

1. Rate of Interest 8.25% per annum
2. Coupon Amount: US\$414.79
3. Interest Payment Date: 16th May, 1991

Agent Bank

Bank of America International Limited

COMMERZBANK OVERSEAS FINANCE N.V.

U.S. \$100,000,000

Floating Rate Notes Due 1993

In accordance with the provisions of the Note notice is hereby given that for the three months period from November 9, 1990 to February 11, 1991 the Notes will carry an interest rate of 8 1/4% per annum with a coupon amount of U.S. \$213.78 on U.S. \$10,000 - and U.S. \$5,344.82 on U.S. \$250,000 -.

Frankfurt/Main, November 1990

COMMERZBANK

ANTIEGENSELLSCHAFT

US\$219,500,000



Telefonica Chile, S.A.

Term Loan Facility

Guaranteed by

Telefonica de Espana S.A.

T.I. Telefonica Internacional de Espana S.A.

In relation to its acquisition of a controlling stake in

Compania de Telefonos de Chile

Arranged by

The First National Bank of Chicago

Funds provided by

Lead Managers

Bayerische Landesbank International S.A.

The First National Bank of Chicago

Union Bank of Switzerland

Managers

Banco Bilbao Vizcaya S.A.

Banco Espanol de Credito S.A. (BANESTO) London Branch

Caja de Ahorros de Galicia-Caixa Galicia

Participants

Banco Exterior U.K. S.A.

Banco di Napoli

Bank Leumi Le-Israel B.M.

Hendelsbank NatWest (Overseas) Limited

Agent

First Chicago Merchant Banking

First CHICAGO

June 1990



Shawmut Corporation

U.S. \$50,000,000

Floating Rate Subordinated Notes

Due 1997

Notice is hereby given that the Rate of Interest has been fixed at 8.4375% and that the interest payable on the relevant Interest Payment Date, February 15, 1991 against Coupon No. 24 in respect of US\$10,000 nominal of the Notes will be US\$215.63

November 15, 1990 London

By: Citibank, N.A. (CSD Dept.), Agent Bank CITIBANK



## INTERNATIONAL CAPITAL MARKETS

## IFC makes swap debut in Portuguese bond market

By Tracy Corrigan

The International Finance Corporation, the World Bank's private sector development arm, became the first borrower to swap funds raised in the Portuguese escudo bond market, where it made its debut issue yesterday.

IFC's £500m five-year deal is only the eighth escudo deal by

## INTERNATIONAL BONDS

a foreign borrower in the market's two-year history. The escudo market is still limited to supranational agencies. The swap market itself is non-existent. The authorities would only allow a government-owned Portuguese company to act as a swap counterparty. Once such a company, with dollar liabilities, had been found, the swap and the issue then both had to be approved by the Portuguese authorities.

For IFC, the result was worthwhile, producing dollar funding at better than its usual

target of 50 basis points below the London interbank offer rate.

The rarity value of such transactions ensured an enthusiastic response by investors. It is their only means of access to the market, since escudo bonds issued by foreign borrowers are exempt from withholding tax for non-Portuguese residents. Further, the high level of interest rates prompted switching out of other bond markets.

IFC has now completed around \$200m of its \$600m-\$700m borrowing programme for this fiscal year, which ends in June. The bulk of its funding will be carried out in the second half of the year, including a Eurodollar bond issue of around \$300m. IFC also plans to return to the escudo bond market.

Elsewhere, the South Australia Government Finance Authority raised a nominal A\$500m of 25-year zero-coupon bonds, issued at a price of 5.825. The deal met strong demand from retail investors.

Because of the structure of the deal (low initial investment with redemption after 25 years), they can use the bonds as a kind of pension fund.

The bonds yield the equivalent of 12.86 per cent, which represents attractive funding for issuers, although they carry the risk of interest rates falling sharply over the life of the issue.

The New South Wales Treasury Corporation has two outstanding long-dated zero-coupon deals, one 20-year and one 30-year issue. Such long-dated bonds cannot be swapped, so non-Australian borrowers are unlikely to tap the market.

British Gas has issued \$750m of two-year promissory notes in the Swiss domestic market, where short-dated paper is permitted. The 8 per cent notes were swapped into fixed-rate dollars, as was British Gas's £250m deal launched last week. The rate achieved for both transactions was better than 8 per cent, a treasury official said.

## Settlement system for Kuwaiti banks

By David Lascelles, Banking Editor

THE NATIONAL Bank of Kuwait, now operating in exile in London, is to set up an international settlement system for Kuwaiti banks in the Gulf region, a move prompted by the Iraqi invasion.

The bank has been mandated by the Kuwaiti central bank, also exiled in London, to create the system so that the banks' international obligations can be unscrambled, and their accounts brought up to date.

The seven banks involved are Gulf Bank, Commercial Bank, Al Ahli Bank, Bank of Kuwait and the Middle East, Borgan Bank, Kuwait Real Estate Bank and Industrial Bank of Kuwait.

National Bank has created a list of the assets and liabilities of these banks partly through records which have been smuggled out, partly by contacting counterpart banks.

The bank intends to make all liabilities current by bringing forward payments up to date. This will be done with a \$100m credit from the Central Bank of Kuwait.

Although the banks are all subject to the international freeze on Kuwaiti and Iraqi assets, the hope is that the settlement will lead to the accounts being unblocked.

The National Bank itself is now operating near normally from its London branch, following the Bank of England's decision to unfreeze it last month.

## BCI to buy French bank

By Haig Simonian in Milan

BANCA Commerciale Italiana (BCI), one of Italy's leading banks, is expanding its international presence through the purchase of Banque Sudameris

France, a 21-branch French bank based in Paris.

The deal, for an undisclosed sum, marks a further step in the belated growth of Italy's biggest financial institutions in neighbouring European countries.

## Stalemate in the marketplace

Richard Waters examines rival models for cross-border equity trading

The creation of a new market for cross-border equity trading in Europe comes under scrutiny today as the chairman of the EC's 12 national exchanges meet in Dublin in an attempt to thrash out agreement on how such a market should work.

However, national differences threaten once again to halt development of a project which has already been much delayed by in-fighting.

Six months ago in Copenhagen, at the last biennial meeting of the Federation of Stock Exchanges in the European Community, clear divisions emerged between the exchanges.

Today those divisions are enshrined in the three different market proposals on the Dublin agenda.

To those proposals the Federation, under Mr Ettore Fumagalli, chairman of the Milan bourse, has added two other subjects likely to raise the competitive hackles of some of its members: clearing and settlement and the development of a European stock market index.

The first of the three models for cross-border trading, a French idea called the Euroclear, would involve Europe's leading exchanges being linked to a central "hub" of the system and then developing into a full-blown trading system.

No precise formula for trading has been suggested, so Euroclear remains the vaguest of the proposals.

Meanwhile, Euroclear could still fall at the first hurdle. There is no agreement on whether it should disseminate its prices through independent networks like Reuters, or set up in competition. London's International Stock Exchange, concerned by the costs and risks of competing with established quote vendors, is against.

Listing and accounting rules may lessen the pain. Euroclear would enable investors anywhere in the EC to invest in a range of companies from other countries through their national market. This makes it well suited to small investors. However, it would bring with it a degree of fragmentation, spreading liquidity across a number of markets and so undermining the central pooling of orders which large investors believe gives them the best prices.

Supporters of a single international market see Euroclear as an attempt to buttress the position of national exchanges.

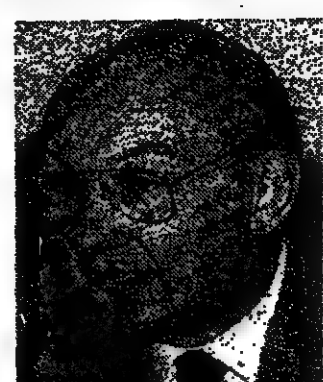
The second item on the agenda, Euroquote, began life as a scheme for gathering together prices and company news from the EC exchanges and disseminating the information throughout and beyond the community.

A separately established company has been set up to pursue the project, which was formerly known as Price Information Project for Europe.

Some supporters, notably in Germany, believe that Euroquote should go on to become a separate market. It would do this by first capturing investors' orders to be fed into the central "hub" of the system and then developing into a full-blown trading system.

No precise formula for trading has been suggested, so Euroquote remains the vaguest of the proposals.

Meanwhile, Euroquote could still fall at the first hurdle. There is no agreement on whether it should disseminate its prices through independent networks like Reuters, or set up in competition. London's International Stock Exchange, concerned by the costs and risks of competing with established quote vendors, is against.



Ettore Fumagalli, chairman of the Milan bourse

ing for a more thorough business case to be made for Euroclear and seems likely to block any advances in the meantime.

The third proposal, for a European Wholesale Market, has been put forward by the ISE and is closely modelled on London's SEAQ international trading system. It is based on the idea that most cross-border dealing is done in large chunks by professional investors, who want a loosely regulated market.

While other bourses are bowing to London, SEAQ at least has the advantage of being able to prove that it works: the market last year handled 88 per cent of the trading in foreign shares carried on in the EC.

London's chances of persuading others to agree will be enhanced if it can prove, as it claims, that the greater activity stimulated by an international market like SEAQ filters down to greater activity on national markets.

It must also overcome a widely held misconception that the ERM would necessarily favour the City of London at

the expense of other European financial centres.

Electronic markets do not have a geographic centre. The location of investment activity depends on other factors, principally the location of the leading investment institutions. It is London's position as the home for international fund management that ensures its lead in international equity trading. Only by matching London's research, sales and trading skills, as well as its professional and financial infrastructure, will other European centres be able to secure a share of the market.

In fighting the idea that the ERM is a ploy by London to guarantee its dominance, however, the ISE will have to spell out more clearly how the market would operate. In particular, it will have to convince others that it is prepared to give up control of the way the market is run.

Faced with three rival proposals, the exchanges will have to make an important decision by the time their meeting ends tomorrow. Should they back one of the models for a new market at the expense of the others, should they push ahead with more than one, or should they buy their differences by taking one step back to agree what it is they are trying to achieve in the first place?

Market users seem to favour the latter. As one large investment house in London says: "We, and probably every other house, try their differences by taking one step back to agree what it is they are trying to achieve in the first place."

As long as the ambitions and fears of national exchanges continue to dominate the debate, rather than the interests of investors and market intermediaries, the stalemate is likely to persist.

## NEW INTERNATIONAL BOND ISSUES

Borrower	Amount \$	Coupon %	Price	Maturity	Yield	Book runner
US DOLLARS						
Shin-Etsu Fin. SV(a) (d)	20	8	101 1/2	1995	1 1/2	Mitsubishi Finance
AUSTRALIAN DOLLARS						
Shin-Etsu Fin. SV(a) (d)	200	8	101 1/2	1995	1 1/2	Mitsubishi Finance
EURODOLLARS						
Int. Finance Corp. (a) (d)	100m	10 1/2	100 1/2	1995	1 1/2	Deutsche Bank
SWISS FRANC						
Republic of Finland (a) (d)	75	7 1/2	101 1/2	1995	1 1/2	Norddeutsche Zentralfin.
Shin-Etsu Fin. SV(a) (d)	20	8	101 1/2	1995	1 1/2	Mitsubishi Finance
SWEDISH KRONOR						
Bank of Indonesia (a) (d)	200	12 1/2	100	1997	-	Dahwa (Europe)
DANISH KRONER						
Fin. for Danish Ind. (a) (d)	150	10 1/2	101 1/2	1995	1 1/2	Kreditbank NV
GUINEAN FRANC						
NV Nederlandse Gasunie (a) (d)	125	9	101 1/2	1995	1 1/2	SEC Inv. SA

(a) Private placement, (b) Convertible, (c) With equity warrants. (d) Floating rate note. (e) Final terms. (f) Non-callable. (g) Put option 202/203 at 107 1/2 to yield 9.088%. (h) Fungible with existing DKK300m deal launched in October, 1990. (i) Fungible with existing F125m deal launched in October, 1990. (j) Put option from 19/11/91 at 98.5% increasing 100p annually thereafter.

## Tor into SE cuts budget and staff

By Bernard Simon in Toronto

THE Toronto Stock Exchange is reducing its budget and cutting its workforce by almost a fifth in response to the mounting slump in North American securities markets.

The Toronto SE, which is the world's eighth busiest stock market, said its 1991 operating budget would total

C\$46.7m (US\$40m), down from C\$57m this year.

The board of directors warned that since deeper cuts could jeopardise essential trading services, any further deterioration in the exchange's financial condition next year

would force a rise in members' charges.

The average daily value of trading on the Toronto SE, which determines the bulk of its revenue, was C\$26m in the first 10 months of this year, 22 per cent lower than a year earlier.

## LONDON MARKET STATISTICS

RISKS AND FALLS YESTERDAY			
British Funds	Rise	Fall	Same
Corporations, Domestic and Foreign Bonds	21.1	41.2	16.7
Financial and Properties	9	19	45.4
Oil	2	36	46
Commodities	1.5	3.1	10.1
Others	33	61	89
Totals	394	812	1,644

LONDON RECENT ISSUES			
Issue	Amount	Price	Yield
1. F.P. 1990	100	101 1/2	10 1/2
2. F.P. 1991	100	101 1/2	10 1/2
3. F.P. 1992	100	101 1/2	10 1/2
4. F.P. 1993	100	101 1/2	10 1/2
5. F.P. 1994	100	101 1/2	10 1/2
6. F.P. 1995	100	101 1/2	10 1/2
7. F.P. 1996	100	101 1/2	10 1/2
8. F.P. 1997	100	101 1/2	10 1/2
9. F.P. 1998	100	101 1/2	10 1/2
10. F.P. 1999	100	101 1/2	10 1/2

FIXED INTEREST STOCKS			
Issue	Amount	Price	Yield
1. F.P. 1990	100	101 1/2	10 1/2
2. F.P. 1991	100	101 1/2	10 1/2
3. F.P. 1992	100	101 1/2	10 1/2
4. F.P. 1993	100	101 1/2	10 1/2
5. F.P. 1994	100	101 1/2	10 1/2
6. F.P. 1995	100	101 1/2	10 1/2
7. F.P. 1996	100	101 1/2	10 1/2
8. F.P. 1997	100	101 1/2	10 1/2
9. F.P. 1998	100	101 1/2	10 1/2
10. F.P. 1999	100	101 1/2	10 1/2

RIGHTS OFFERS			
Issue	Amount	Price	Yield
1. F.P. 1990	100	101 1/2	10 1/2
2. F.P. 1991	100	101 1/2	10 1/2
3. F.P. 1992	100	101 1/2	10 1/2
4. F.P. 1993	100	101 1/2	10 1/2
5. F.P. 1994	100	101 1/2	10 1/2
6. F.P. 1995	100	101 1/2	10 1/2
7. F.P. 1996	100	101 1/2	10 1/2
8. F.P. 1997	100	101 1/2	10 1/2
9. F.P. 1998	100	101 1/2	10 1/2
10. F.P. 1999	100	101 1/2	10 1/2

TRADITIONAL OPTIONS			
Issue	Amount	Price	Yield
1. F.P. 1990	100	101 1/2	10 1/2
2. F.P. 1991	100	101 1/2	10 1/2
3. F.P. 1992	100	101 1/2	10 1/2
4. F.P. 1993	100	101 1/2	10 1/2
5. F.P. 1994	100	101 1/2	10 1/2
6. F.P. 1995	100	101 1/2	10 1/2
7. F.P. 1996	100	101 1/2	10 1/2
8. F.P. 1997	100	101 1/2	10 1/2
9. F.P. 1998	100	101 1/2	10 1/2
10. F.P. 1999	100	101 1/2	10 1/2

## LONDON TRADED OPTIONS

TURNOVER in the derivative markets remained low as uncertainty caused by the leadership contest in the Conservative party and the weakness of sterling combined to produce a nervous session. The futures market opened lower as dealers correctly anticipated that Mr Michael Heseltine would not win the upcoming party leadership contest. His announcement caused little change in prices and for most of the session the December FT-SE 100 index contract was stuck in a narrow range.			
A stronger performance by Wall Street did lift the market off its lows, but with sterling still weak, ending there was little incentive for			

LONDON TRADED OPTIONS			
Option	Amount	Price	Yield
1. F.P. 1990	100	101 1/2	10 1/2
2. F.P. 1991	100	101 1/2	10 1/2
3. F.P. 1992	100	101 1/2	10 1/2
4. F.P. 1993	100	101 1/2	10 1/2
5. F.P. 1994	100	101 1/2	10 1/2
6. F.P. 1995	100	101 1/2	10 1/2
7. F.P. 1996	100	101 1/2	10 1/2
8. F.P. 1997	100	101 1/2	10 1/2
9. F.P. 1998	100	101 1/2	10 1/2
10. F.P. 1999	100	101 1/2	10 1/2

LONDON TRADED OPTIONS			
Option	Amount	Price	Yield
1. F.P. 1990	100	101 1/2	10 1/2
2. F.P. 1991	100	101 1/2	10 1/2
3. F.P. 1992	100	101 1/2	10 1/2
4. F.P. 1993	100	101 1/2	10 1/2
5. F.P. 1994	100	101 1/2	10 1/2
6. F.P. 1995	100	101 1/2	10 1/2
7. F.P. 1996	100	101 1/2	10 1/2
8. F.P. 1997	100	101 1/2	10 1/2
9. F.P. 1998	100	101 1/2	10 1/2
10. F.P. 1999	100	101 1/2	10 1/2

LONDON TRADED OPTIONS			
Option	Amount	Price	Yield
1. F.P. 1990	100	101 1/2	10 1/2
2. F.P. 1991	100	101 1/2	10 1/2
3. F.P. 1992	100	101 1/2	10 1/2
4. F.P. 1993	100	101 1/2	10 1/2
5. F.P. 1994	100	101 1/2	10 1/2
6. F.P. 1995	100	101 1/2	10 1/2
7. F.P. 1996	100	101 1/2	10 1/2
8. F.P. 1997	100	101 1/2	10 1/2
9. F.P. 1998	100	101 1/2	10 1/2
10. F.P. 1999	100	101 1/2	10 1/2

LONDON TRADED OPTIONS			
Option	Amount	Price	Yield
1. F.P. 1990	100	101 1/2	10 1/2
2. F.P. 1991	100	101 1/2	10 1/2
3. F.P. 1992	100	101 1/2	10 1/2
4. F.P. 1993	100	101 1/2	10 1/2
5. F.P. 1994	100	101 1/2	10 1/2
6. F.P. 1995	100	101 1/2	10 1/2
7. F.P. 1996	100	101 1/2	10 1/2
8. F.P. 1997	100	101 1/2	10 1/2
9. F.P. 1998	100	101 1/2	10 1/2
10. F.P. 1999	100	101 1/2	10 1/2





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Assets in excess of \$2 billion (U.S.)



## UK COMPANY NEWS

Motor and building insurance premium rates to rise  
GA interim loss rises to £73.3m

By Eric Short

LOSSES OF General Accident, the composite insurer, reached £73.3m pre-tax for the nine months to September 30. That compared with profits of £137m for the same period of the previous year.

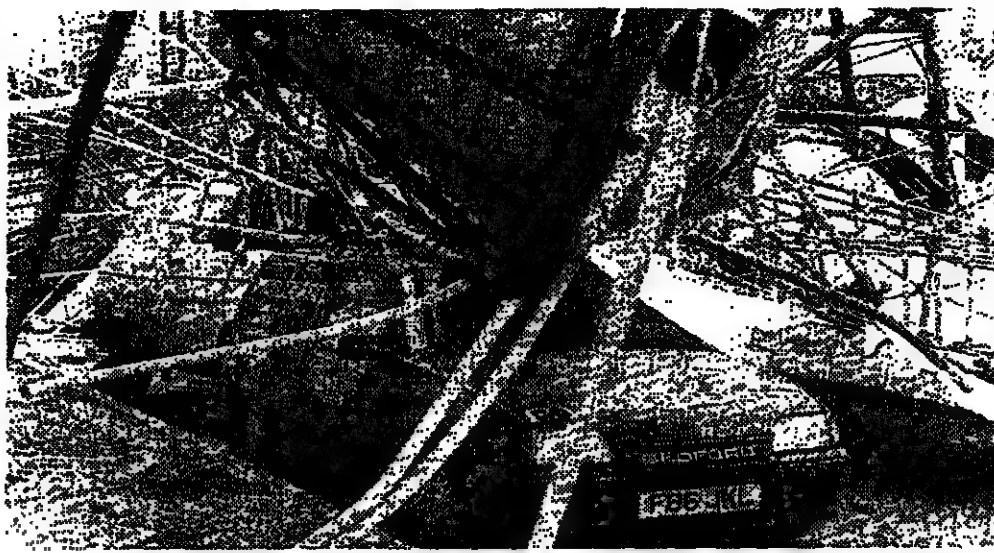
A further £5.4m was added to the overall loss from the third quarter, compared with a £15.1m profit in the third quarter last year.

The group has reacted by making major rating increases, particularly in its main problem area - the UK where underwriting losses of £35.5m were incurred in the third quarter bringing total underwriting losses here to date to a profit of £25.5m last year.

In the UK, GA lost of further £15.1m from the underwriting of its major motor insurance account, bringing total underwriting losses here to date to £40.7m compared with a profit of £3m last year. These losses reflect a continuing rising number of claims, which to date have not been slowed down by higher petrol prices and by a steady rise in the average cost of a claim.

GA is reacting by increasing its motor premium rates in January for private motor business to follow rate increases already made in May and October. Commercial motor rates are also being increased.

The hot dry summer has taken its toll of all UK house insurers through subsidence claims, following the winter storms in January and February.



Damage caused by the storms that ripped through Britain earlier this year

The Homeowners account lost a further £7.8m, bringing total underwriting losses to £23m, against a £10.6m profit last year. The group is shortly to increase the rate for house buildings by 10 per cent, following similar action by at least one other major house insurer.

Commercial property, hit by a spate of large fire and other claims, liability and other accounts also recorded third quarter underwriting losses.

The estate agency operations showed a continued loss of £14.5m against a loss of £12.8m last year. A restructuring programme is being implemented.

In contrast to the situation of a few years ago, the US account is showing a somewhat better picture. Underwriting losses at the nine-month stage were only slightly higher at £118.5m against £113.8m, after a third quarter where losses were down from \$59m to \$34.2m.

Operations in the Pacific basin showed a third quarter

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Operations in the Pacific basin showed a third quarter

See Lex

## CU slides to £27m in adverse climate

By Eric Short

A CONTRIBUTION OF £12.2m pre-tax in the third quarter raised Commercial Union's taxable position at the end of the nine months to September 30 to £27.2m.

However, this result was well down on last year, when the third quarter profit of £20.3m led to profits of £110.3m at the nine-month stage.

As with other composite groups, the reduced profitability arises primarily from adverse conditions in the UK - now CU's largest operating territory.

Subsidence claims of £23m in the first nine months, including £13.2m in the third quarter and more expected in the final quarter, have to be added to the £40m cost of the winter storms and the continuing rise in large fires (many of them arson) and other commercial claims.

As a result, total underwriting losses in the UK have reached £92.2m, compared with a break-even position last year.

CU has yet to finalise its position on increasing house building rates, though it is likely that it will follow the lead of other insurers and increase them by 10 per cent.

In the US, where CU has been rationalising its operations, an operating profit of £7.8m was recorded for the nine months, against £20.3m losses last year. A similar operating profit of £7.7m (£8m) was recorded in Canada.

In Europe, the operating loss was £5.5m, against a £5.2m loss last year, the result being affected by the winter storms.

Non-life premiums rose by 17 per cent, reflecting the continued development of European operations.

However, the star in CU's operation has been the growth world-wide in life and other long-term business.

Pre-tax profits overall at the nine month stage rose from £64.7m to £74.5m, with 30 per cent growth in new long-term premiums.

## Tough market conditions force Thorn down £12m to £96m

By Alan Cane

THORN EMI disappointed the City yesterday with half-year results that reflected tough conditions in several of its principal markets.

Pre-tax profits in the six months to September 30 were £96.2m, down from £108.1m. Sales, at £1.84bn, were marginally up on the £1.7bn of last year.

Fully diluted earnings per share fell from 22.3p to 19.8p, but the interim dividend is raised from 8.5p to 9p. That, said Mr Colin Southgate, chairman and chief executive, reflected the board's confidence in the group's longer-term prospects and financial strength.

The outstanding act in the group's repertoire was again the music business which, Mr Southgate said, performed excellently. "Its recorded music business secured a significant increase in overall

Thorn EMI

Share price (pence)

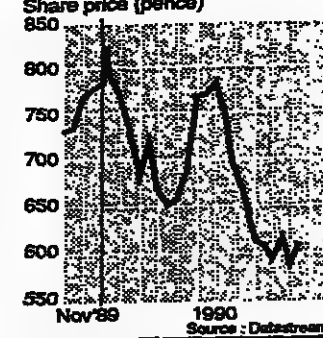


chart share, particularly in the critical US market.

Rental and retail business developed strongly internationally. Mr Southgate said, although rationalisation charges held profits back in the UK while the lighting busi-

ness lost £1.2m on total sales of £254m, he announced yesterday that manufacturing operations would be sold to GE of the US. No buyer has been found for the defence business and efforts were being made to improve its profitability.

The chairman said the group would continue to invest heavily in both assets and new products. He believed it had been a good year for the group in the circumstances although "We would like to think we could have done better."

Ms Sheila Martin, leisure industry analyst at Fleming, said the results were disappointing and that she was downgrading her predictions for the full year and for 1992, where she believed there would be no growth. The earnings outlook, she said, was not particularly good, and would be 30p fully diluted in each of the two years.

## Hillsdown satisfies DTI on Strong takeover plan

By Jane Fuller

THE RESCUE of Strong & Fisher, the insolvent leather company, has been brought back on course following an agreement between Hillsdown Holdings, which plans to take control of Strong, and the Department of Trade and Industry.

Last week Hillsdown objected to being given just 48 hours to agree to the sale of Strong's 27.4 per cent stake in Pittard Garnar, the UK's only other quoted leather company. Had it pulled out of the rescue package, supported by Strong's banks which were owed more than £46m, Strong seemed certain to go into receivership.

Hillsdown has put forward an alternative that would involve reducing Strong's stake in Pittard to less than 10 per cent within 18 months. Mr Peter Lilley, Trade Secretary, yesterday accepted this and said it should avoid a referral to the Monopolies and Mergers Commission.

The DTI said it had been concerned about the influence Hillsdown would have over Pittard, which warned on Tuesday that it would stay in the

red this year. Previous MMC examinations of the leather industry had concluded that takeovers could go ahead so long as two companies remained.

A key factor in the compromise suggested by Hillsdown is that Strong's creditor banks which have already agreed to write off £14m of the amount owed to them, will pay Strong up to £10p per Pittard share to help cover any shortfall below 28p.

Pittard's share price closed at 37p yesterday. Early last year, Hillsdown sold a 17 per cent stake in Pittard to Strong for more than £3 a share.

The support promised by the banks for the share disposal could cost them up to £8m, although through the conversion of £24m of Strong's debt into equity they share the benefit of the arrangement.

The prospect of perhaps having to produce a further £8m had to be set against what the banks stood to lose if the company were liquidated. One comment was that £8m was not all that much in proportion to the total amount involved.

## Coats Viyella restructures thread division

By Alice Rawsthorn

Coats Viyella, the largest textile group in the UK, is restructuring its thread division into two international businesses.

The thread division, one of the largest parts of the Coats group with a workforce of 31,000, has been divided into Coats Industrial, specialising in industrial sewing threads, and Coats Crafts, involved with consumer products.

Coats Industrial will be run from Glasgow under Mr David Russell as chief executive. Coats Crafts, based in Brussels, will be headed by Mr Patrick Helmer, chief executive.

The thread division is strategically important to Coats in that it forms the base of its international network of trading companies. Coats is a leading player in the worldwide thread market in both the industrial and consumer sectors.

Mr Martin Flower, chairman of the thread division, said the restructuring reflected the "very different customer bases and requirements" of the two thread businesses.

## CE Heath marginally lower at £10.2m

CE HEATH, the Lloyd's insurance broking group, reported pre-tax profits marginally down, from £10.6m to £10.2m, for the six months ended September 30 1990, writes Eric Short.

After-tax profits also showed a slight reduction, from £5.9m to £5.7m, with an earnings per share of 12.3p against 13p last time. The interim dividend is unchanged at 7.5p.

Insurance broking operations saw brokerage income rise by 21 per cent to £31.7m (£26.2m), reflecting a strong performance in the UK-based operating companies

despite the relative strength of sterling and continuing competitive market conditions.

However, brokerage expenses were up by 25 per cent to £24.5m (£27.5m) - the result of a continued acquisition policy in the UK, expansion of the financial services operations in Europe, and an extension of the in-house training facilities. The underlying growth in expenses was only 12 per cent.

Underwriting profits fell slightly from £8.8m to £8.5m. This business was transacted in either Australian or US dollars and the fall in profits came

solely from the relative strength of sterling against those currencies. Otherwise there was an underlying growth trend.

The group expected to confirm and announce the terms of the proposed acquisition of Abaco Investments, a subsidiary of British and Commonwealth Holdings, either today or tomorrow.

COMMENT The interim profits of CE Heath were somewhat disappointing. But the market was heartened by the news that rates appear to be hardening,

particularly the direct marine and aviation and reinsurance, and the share price fell only 8p to 431p. However, the results already hit adversely by the relative strength of sterling,

could be hit even harder by effects of the UK's membership of the ERM from continued currency strength and falling interest rates, though expectations are that the year's pre-tax profits will advance by around 10 per cent to approach £30m.

Benefits of the expected Abaco acquisition will not be reflected in the current year, though longer term it should prove to be highly beneficial.

## British Steel plc

## RESULTS FOR THE HALF YEAR TO 29th SEPTEMBER 1990

	Unaudited Half Year to 29th Sept 90	Unaudited Half Year to 30th Sept 89	Audited Year to 31st March 90
TURNOVER	£2,510m	£2,550m	£5,113m
PROFIT BEFORE TAXATION	£307m	£423m	£733m
EARNINGS PER SHARE	11.9p	16.6p	28.2p
DIVIDEND PER SHARE	3.0p	2.75p	8.25p

The unaudited half year results have been prepared on the basis of the accounting policies set out in the Report and Accounts for the year ended 31st March 1990. Figures for the year ended 31st March 1990 have been extracted from the audited accounts for that year which have been delivered to the Registrar of Companies and on which the auditors issued an unqualified report.

The reduction in steel demand, which began in the second half of last year, has to date been confined mainly to the United Kingdom market. Conditions have become increasingly competitive in the international market place due to the increased availability of steel in the wake of the economic and political difficulties in a number of countries most notably China and Russia but also Eastern Europe and the Middle East. Despite these factors, and like many other European producers, we have been able to obtain export sales to offset, in part, lower domestic sales volumes. Price weakness in mainland Europe and Rest of World markets, however, has combined with the relative strength of sterling and high UK inflation, to reduce trading margins.

Sales volumes are not expected to improve in the near term and margins will continue to be under pressure. We have, therefore, stepped up our drive to reduce the cost base further, particularly in the administrative and management areas. In order to maintain the Company's competitive position. Furthermore and as announced last week, given the continuing World excess capacity in seamless tubes the Board has decided to close the loss-making seamless operations at Clydesdale Works in Scotland by the Spring of next year. In these weakening market conditions maximising production from the most efficient plants becomes even more important and this together with differential capital investment and further cost reduction initiatives will help maintain the Company's position as one of the Western World's lowest cost producers.

Faced with the current uncertain and weakening trading conditions, the Company's management is determined to continue with measures to maintain our competitive position. This determination together with the Company's strong balance sheet leaves British Steel well positioned to deal with the present downturn. Inevitably, however, profits will be reduced for the rest of the year and the difficult economic situation will also impact on 1991/92.

Sir Robert Scholley, Chairman  
12th November 1990

The Interim Statement will be mailed to shareholders on 13th November 1990. Copies of the Interim Statement and further information on the results for the half year to 29th September 1990 (including balance sheet and source and application of funds statement) are available from the Secretary, British Steel plc, 9 Albert Embankment, London SE1 7SN, or by telephoning 071-735 7654.



British Steel

## LAND SECURITIES

## INTERIM RESULTS TO 30 SEPTEMBER 1990

Sound progress in a difficult market  
Rental income increased by £31.4 million to £162.3 million  
Pre-tax profit up 27.1% to £102.7 million  
Interim dividend increased by 15.8% to 5.5p  
Pre-tax profit for the half year to 31 March 1991 is not expected to differ materially from this half year

## Extracts from the Review of the Group's Activities:

All completed office developments are now fully let with the exception of 68,000 sq. ft. in one City building. Good progress has also been made in pre-letting new developments currently under construction.

The present problems of the property industry generally have resulted in weakening investment yields and reduced rental expectations which have affected capital values and some of the growth in future reversionary income.

Despite this, the Company will benefit from the considerable additional income which has still to flow from reviews and renewals in the next year or two. In addition, substantial further income will flow from developments which have been let but are not yet income producing.

The developments under construction, including those which we have started recently, are all situated in proven locations and are being built to our high standards. With these qualities the buildings should let readily and generate further income in due course.

The Company concentrates on long term fundamental principles to maximise the income from the portfolio; it is from increased income that potential for growth in dividends and capital values will be derived.

A leaflet setting out the Interim Results and the Review is being despatched to the Shareholders. A copy may be obtained from the Secretary.

## LAND SECURITIES PLC

Landsec House, 21 New Fetter Lane, London EC4P 4PY



## Land Securities up 27% to £103m

By Vanessa Houlder, Property Correspondent

LAND SECURITIES, the biggest UK property company, yesterday announced a 27 per cent rise in pre-tax profits from £80.8m to £102.7m for the six months to September 30.

Income increased from £159.8m to £183.2m, of which the rental income was £162.8m, up by £31.4m. Interest payable rose from £32.3m to £38.2m.

The share price closed 4p higher at 521p.

The company described the results as "sound progress in a difficult market." It expected to benefit from considerable additional income from reviews and renewals in the next year or two.

However, weakening investment yields and reduced rental expectations had affected capital values and some of the growth in future reversionary income.

Mr Peter Hunt, chairman and managing director, said he believed that rental growth might resume after 1991, assuming that the economy moved into balance.

All the group's completed office developments were fully let, with the exception of 68,000 sq ft in one City building. Good progress had also been made in pre-letting new buildings under construction.

Earnings per share increased

from 10.42p to 13.24p. An interim dividend of 5.5p (4.75p) was declared.

### COMMENT

As the bellweather stock in a beleaguered sector, Land Securities might have expected a rough ride from the stock market this year. Not a bit of it. Since the start of the year, it has outperformed the FT-Actuaries All Share index by 15 per cent. The reason is the market's flight to quality: Land Securities is rock solid, with conservative accounting policies, sound tenants and the prospect of continuing dividend growth of 15 per cent a

year. Against that, some analysts think that expectations of rental growth have been over-optimistic, given the glut of buildings in many of its markets. Moreover, there is unease about the likely fall in asset values this year, with some analysts steeling themselves for as much as a 14 per cent fall in diluted assets per share. However, the absence of an active investment market means that predictions are little more than stabs in the dark, so the continued progress of the shares may depend more on investors' search for security than arguments about value.

## ACT Group doubles to £5.4m after Apricot sale

By Alan Cane

ACT GROUP, the Birmingham-based computer services combine which sold its marginally profitable Apricot computer business to Mitsubishi of Japan earlier this year, is already reaping the benefits.

Pre-tax profits more than doubled from £2m to £5.36m in the half-year ended September 30 1990, although turnover at £46.16m was 18 per cent down on the £56.4m reported last time.

Earnings per share were 4.01p (1.86p) and the interim dividend is raised to 6.25p (0.75p). Mr Roger Foster, chairman, explained the dividend included the special 5p paid in July as a result of the Apricot takeover.

The balance sheet showed that fixed assets had fallen from £9.5m to £5.3m through the Apricot disposal but cash had risen from £2.1m to £24.6m. That was being held against the possibility of making acquisitions in line with the group's strategic direction, Mr Foster said.

All the divisions were profitable with the exception of the small, pioneering medical group which he thought would prove a strength in the future.

## Ultramar advances sharply to £44.6m

By Steven Butler

ULTRAMAR, the diversified oil group, yesterday reported a strong third-quarter performance, with historic cost after-tax profits at a record £44.6m, compared with £15.5m a year ago. Even on a replacement cost basis, which strips out the effect of inventory gains, however, Ultramar was well ahead with a 52 per cent increase to £32.9m.

Looking at the first nine months of the year, historic cost net profits rose only modestly from £76.2m to £78.9m. The company said, however, that underlying dollar earnings had increased by 20 per cent.

The results reflect Ultramar's success in maintaining strong margins in refining and marketing, where many oil companies have recently reported a difficult quarter.

Oil and gas production increased slightly during the nine-month period to 107,100 barrels a day, with higher US

and Indonesian production offset partially by the sale of Canadian and Egyptian production.

Liquefied natural gas shipments from Indonesia increased by three cargoes to 88. Upstream profits in the third quarter rose to £10m from £8.1m, while for the nine months profits fell from £32.1m to £28.1m.

In the refining and marketing end of the business, in which Ultramar is active in eastern Canada and California, historic cost profits rose from £33.2m to £35.5m in the quarter. Throughput at the Quebec refinery rose by 17 per cent in the nine months to 113,100 barrels a day.

The company said it had been able to recover the higher costs of its supplies with higher sales prices to its customers, although it said sharp fluctuations in oil prices could make it difficult to continue



John Darby, chairman, pleased at the record profits

doing so. Earnings per share in the quarter rose from 4.2p to 12.1p. For the nine months, earnings rose from 20.8p to 21.4p.

## Interest payments shore up Regalian

REGALIAN PROPERTIES, the commercial and residential developer, yesterday announced a small drop in pre-tax profits from £5.51m to £5.23m, for the half-year to September 30, writes Vanessa Houlder.

The result, which compared with interim profits of £17.25m two years ago, was deemed "highly commendable" by the company. The share price was unchanged at 72p.

Turnover increased from £18.85m to £21.34m, giving a gross profit of £2.04m (£2.31m).

The bulk of the profit came from the £5.85m (£5.58m) interest received from the forward payment for the Vauxhall Cross development in south London made by the government-owned Property Services Agency. The company had a virtually unchanged cash pile of £29.87m.

Most of the interim turnover came from sales of residential property. Mr David Goldstone, chief executive, said that the 50/50 scheme, by which buyers put down a 50 per cent deposit for a half-interest in their home with five years to purchase the balance at the prevailing market price, had generated substantial turnover among properties priced at less than £150,000.

Mr Goldstone believed that difficult conditions would prevail for some time and the glimmer of light at the end of the tunnel was no more than that. The company was not contemplating an early start on the schemes in its portfolio which had to await an upturn in market conditions.

Regalian is having talks with Westminster Planning Authority about the Bishopsgate project near Paddington Station. It said that the recent announcement of the London Crossrail system would alleviate traffic problems in the area, which had been one of the main issues under discussion.

Detailed planning permission for 150,000 sq ft of offices had been obtained for a recently acquired site in St Mary Street, Cardiff.

Earnings per share dropped from 3.9p to 3.85p; the interim dividend is held at 1.5p. Net assets increased from £49.6p to £51.9p.

## VSEL rises 36% midway but warns on full year

By Charles Leadbeater, Industrial Editor

IMPROVED CASHFLOW and a sharp increase in interest income helped the VSEL Consortium, the military shipbuilder, to increase interim pre-tax profits by 36 per cent from £12.13m to £16.54m.

However, the group warned that its full-year results would be affected by provisions it will have to make for restructuring and redundancies to take account of the decline in military spending.

Trading profit rose from £15m to £15.69m in the six months to the end of September.

Turnover increased by £2m to £247.9m.

The group is in the midst of a radical restructuring intended to respond to the forecast decline in military spending.

Mr Noel Davies, chief executive, said a small number of serious inquiries had been received from companies interested in purchasing the Cammell Laird yard in Birkenhead. He would be holding talks with potential purchasers within the next few weeks.

The company expects to announce an extensive review of its operations at Barrow, in Cumbria, in the early part of next year. The review is examining the likely impact of the Ministry of Defence's review of defence spending.

The company recently announced 550 redundancies at the Barrow yard, where employment has fallen by a total of 700 to 13,300 in the last 12 months.

Mr Davies said profits in the second half would be improved because it would be taking profit deferred on contracts from the first two Trident submarines ordered by the Navy.

In addition, on Tuesday, the government announced that it was going ahead with an order for a third Trident and the company hopes to soon start talks on a contract to build a fourth. This will provide it with development funding.

Earnings per share in the first half rose from 30.8p to 37.9p, while the interim dividend was increased from 3p to 7p.

## Dunhill improves 31% on operating efficiencies

By Maggie Urry

OPERATING efficiencies enabled Dunhill Holdings, the luxury consumer goods group, to lift its interim pre-tax profit by 31 per cent as turnover dropped 3 per cent.

For the six months ended September 30, profit reached £23.6m (£23.7m) on turnover of £113.6m (£122.5m).

The group, in which Rothmans International, the tobacco and luxury goods company, has a controlling stake, said that trading conditions were more difficult but that margins rose, thanks to operating efficiencies.

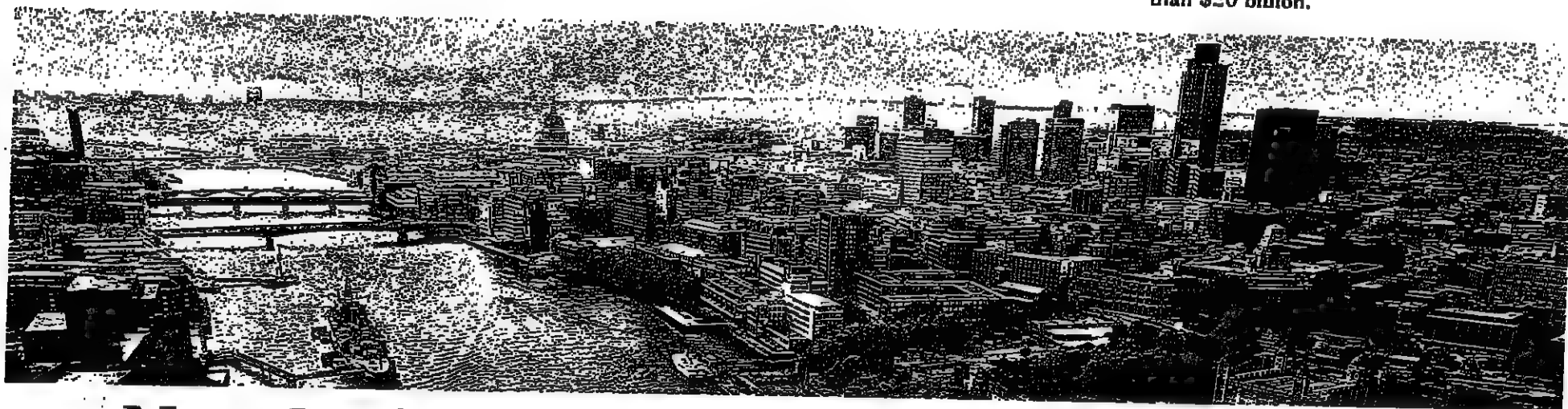
It was "confident of continued progress in the second half" despite the trading conditions, but provided there was no serious deterioration in the world economy or the situation in the Gulf.

More than 90 per cent of group sales were generated outside the UK and "weaker export currencies have contributed to lower sales in sterling terms".

Contribution to profit from the Dunhill brand was higher, while Montblanc, the expensive pen business, produced a significant increase on strong sales growth. The Chloé fashion and perfume business maintained sales.

The group gives few financial details at the interim stage. It said that income from interest "also made a valuable additional contribution to profits" but did not specify what that was.

Earnings per share rose 30.5 per cent to 12.4p (9.5p) and the interim dividend is up 30 per cent to 2.6p (2p). The shares gained 3p to 385p.



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### DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total for last year
ACT Group	1.25p	Jan 7	0.75	-	2.25
Boots	4.1	Feb 4	3.85	-	7.95
British Airways	2.8	Jan 11	2.8	-	5.6
Dunhill	2.6	Jan 4	2	-	4.6
Electronics	1.8	Jan 2	1.7	-	3.5
Five Oaks Inv	0.4	Jan 4	1	-	1.4
Headlight Inds	2.2	Jan 4	2	-	4.2
Health (CE)	7.5	Jan 8	7.5	-	15.0
Jessops	4.75	Jan 4	4.75	-	9.5
Land Securities	5.5	Dec 17	4.75	-	10.25
Principal Hotels	nil	-	1	-	1
Regalian Props	1.5	Jan 4	1.5	-	3.0
Shaw (Arthur)	1.3	Jan 3	1.3	-	2.6
Thorn EMI	9	Mar 1	8.5	-	17.5
VSEL	7	Jan 4	4.5	-	11.5
Whitbread Inv	3.95	Jan 4	3.35	-	7.3

Dividends shown pence per share net except where otherwise stated. \*Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. \$USM stock. ‡Special 5p already paid.

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Registration Number 067/6931/06  
(Incorporated in the Republic of South Africa)

### Proposed rights offer of 2 831 669 preference shares in Freddev to members of the Company

Further to the announcements published on 2 November 1990 and 12 November 1990, Freddev announces that The Johannesburg Stock Exchange ("the JSE") has granted a listing for the renounceable (nil paid) letters of allocation pursuant to the rights offer by Freddev to its members (other than those members whose addresses, as recorded in the Freddev share register, are within the United States of America or Canada).

Record date for the rights offer - last day for Freddev shareholders to register for the offer - close of business on Friday 16 November 1990  
Listing of the renounceable (nil paid) letters of allocation commences on the JSE Monday 19 November 1990  
Offer opens at 09H30 Friday 23 November 1990  
Last day for dealing in the letters of allocation on the JSE Wednesday 12 December 1990  
Last day for applying letters of allocation - in London 15H00 Wednesday 12 December 1990  
- in Johannesburg 14H30 Thursday 13 December 1990  
Listing of the preference shares of Freddev commences on the JSE Thursday 13 December 1990  
Rights offer closes - last day for acceptances and payments to be made by 14H30 Friday 14 December 1990  
Last day for late postal acceptances in Johannesburg only, by 12H00 Wednesday 19 December 1990  
Freddev preference share certificates posted on or before Friday 21 December 1990

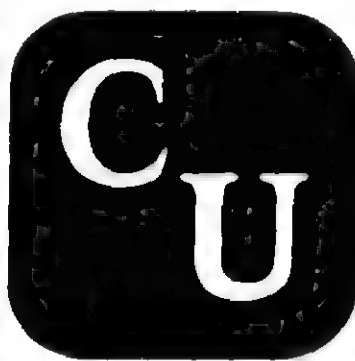
All times given are local times in the Republic of South Africa or the United Kingdom, as appropriate.  
The rights offer circular, including the renounceable (nil paid) letters of allocation and the South Deep prospectus, will be posted to members by

Johannesburg Transfer Secretaries Limited  
Consolidated Share Registrars Limited  
1st Floor, Edura  
40 Commissioner Street  
Johannesburg 2001

## CORPORATE SECURITY

The FT proposes to publish this survey on December 13 1990. It will be of particular interest to the tens of thousands of Directors & Managers who make decisions regarding the purchase of security services who are also regular FT readers. If you want to reach this important audience, call Jessica Perry on 071 873 4611 or fax on 071 873 3062.

## FT SURVEYS



NINE MONTHS' REVIEW

# Pre-tax profit £27.2m

- ★ Life profits increase 13% to £74.5m with strong new life premium growth of 31%.
- ★ Operating profit before taxation £27.2m (1989 £110.3m).
- ★ Results affected by first quarter storms costing £55m and property subsidence claims of £23m.
- ★ Total premium growth 11% but non-life insurance markets remain competitive.
- ★ United States improves to a profit of £7.6m (1989 loss £30.2m).

HIGHLIGHTS			
	9 months 1990	9 months 1989	
	Unaudited	Unaudited	
Total premium income	£2,699.9m	£2,546.3m	
Operating profit before taxation	£27.2m	£110.3m	
Operating profit after taxation	£16.5m	£60.7m	
Earnings per share	3.9p	14.4p	
Shareholders' funds	£1,221m	£1,609m	



Commercial Union plc

## UK COMPANY NEWS

### City analyst predicts appalling first half figures Davy chief quits ahead of results

By Andrew Bolger

MR ROGER Kingdon has resigned as chief executive of Davy Corporation, the UK's largest independent engineering contractor, days before interim results which are widely expected to be disastrous.

Shares in Davy yesterday closed 5p down at 68p, valuing the group at £80.6m - less than a third of the £277m which the company was worth as recently as June 4.

Analysts said the sudden collapse in the share price had threatened the independence of the British group, which had been bedevilled by loss-making contracts in recent years.

One analyst said: "The results will be appalling, but it has got beyond the realms of analysis to put figures on it. We are predicting breakeven for the year, but it really all depends on how and where they take provisions."

The shares started to plunge in late June, after the company revealed losses of £25.6m in its offshore division on a £120m contract to provide a floating

production platform for the Emerald oil field, east of Shetland.

Mr Kingdon, who was closely identified with the Emerald contract, will be replaced by Mr Patrick Morrice, who has been deputy chief executive for three years.

Davy has filed claims totalling about £50m against its client, Midland and Scottish Resources, the USM-quoted oil and production services group. MSR has counter-claimed for £5m and may submit a further claim for late delivery of the rig from Davy's Dundee yard.

Davy is also in dispute with Exxon, the US oil company, over a £100m contract which is running nine months late at British largest oil refinery at Fawley, near Southampton.

A troublesome contract at British Steel's Universal Heat plant on Teesside is thought to have led a cost over-run in the order of £10m.

There have also been problems with a defence contract at Barrow-in-Furness, but the figure involved is said to be much less significant.

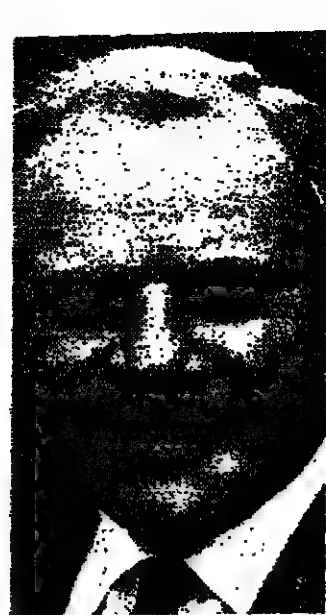
Mr Kingdon's departure continues a big reshuffle at the top of Davy. Sir Alastair Frame, formerly chairman of RTZ, the world's largest mining group, took over as chairman of Davy from Lord Jellicoe in January.

Mr Derek Hawkins has since replaced Mr Ian Carswell as finance director.

One possible source of pressure on Davy may be Spie-Batignolles, the French construction concern, which took a 14.7 per cent stake in the British group in March in exchange for Ciechim, the French group's subsidiary which designs and builds production plant for steel and other metal industries.

The French group, which was given a seat on Davy's board, has since seen the value of its stake fall from £41.1m to £11.83m.

Davy's results for the six months to September 30 will be published next Thursday. In the same period last year, it made pre-tax profits of £11.3m.



Roger Kingdon - departure continues a big reshuffle at the top at Davy

### Acquisition behind 67% jump at Hadleigh

By Andrew Jack

A RECENT acquisition helped boost pre-tax profits by 67 per cent at Hadleigh Industries, the industrial, automotive and exhibition company, in the six months to September 30.

Hadleigh, which joined the USM last year, announced taxable profits of £7.1m, compared with £392,000 last time. Turnover almost doubled to £17.48m (£8.54m).

Mr Tony Cookson, chairman, said that one-third of the increase in profits came from Lynton, a manufacturing exhibition trailer, which Hadleigh bought for £3.6m last December.

Mr Cookson said that "there was a series of problems with sub-contractors" in the engineering division, which fell £200,000 short of its performance target. But the businesses remained profitable and the problems have since been "identified and rectified".

The automotive division was static compared with last year. Costs were trimmed at Teapoint, the distributor of trailer spare parts, and the company is considering acquisitions to create a national distribution network.

Hadleigh recently bought Universal Bulk Handling, a manufacturing bulk handling company, from Tipbuck for £1.98m. But the purchase in August was too early to contribute significantly to profits.

Earnings per share were 10.4p (8.1p). The directors declared an interim dividend of 2.2p (2p).

Hadleigh's shares closed down 7p at 168p.

## Crossroads Oil back in profit

Crossroads Oil Group returned profits of £16,736 for the half year to end-September, compared with previous losses of £93,207.

Turnover slipped back from \$503,127 to \$450,036 and earnings were through at 0.04p (losses 0.31p) per Sp share.

The directors said the deep exploratory drilling programme was looking encouraging and that contributions from the Louisiana offshore development programme should prove significant.

## UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY: Index of industrial production, manufacturing output (1985=100); engineering orders (2 billion); retail sales volume (1985=100); services value (1985=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted except retail sales value.

	Ind. prod.	Eng. orders	Retail sales	Unempl.	Unfilled vac.
1989	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0
1990	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0
1991	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0

OUTPUT: By market sector: consumer goods, intermediate goods, investment goods (including transport), engineering output, metal manufacturing, textiles, leather and clothing (1985=100); housing starts (000s, monthly seasonally adjusted).

	Consumer goods	Intermediate goods	Investment goods	Engineering output	Metal manufacturing	Textiles	Leather and clothing
1989	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1990	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1991	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0

EXTERNAL TRADE: Index of export and import volumes (1985=100); visible balance (billions of pounds sterling, monthly seasonally adjusted); current balance (billions of pounds sterling, monthly seasonally adjusted).

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Turnover	Reserve
1989	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1990	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1991	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0

FINANCIAL-Money supply M0, M2 and M4 (annual percentage change); sterling lending to private sector; building societies' net assets; consumer credit; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M2 %	M4 %	Bank lending	Building societies	Consumer credit	Base rate
1989	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1990	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1991	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0

INFLATION-Index of earnings (1985=100); basic materials and fuels; wholesale price of manufactured products (1985=100); retail price and food price (1985=100); Retailer commodity index (1985=100); trade weighted index of sterling (1985=100).

	Earn. index	Basic materials	Fuels	Wholesale price	Food price	Retailer commodity	Trade weighted index
1989	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
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1st qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1991	118.0	118.0	118.0	118.0	118.0	118.0	118.0
1st qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
2nd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
3rd qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0
4th qtr.	118.0	118.0	118.0	118.0	118.0	118.0	118.0

## Creditors body formed to liaise with Polly Peck administrators

By Richard Waters

A COMMITTEE of creditors and investors was announced yesterday to liaise with the administrators of Polly Peck International in an unusual step intended to give a say to all those affected financially by the collapse.

The move was seen as an attempt by the administrators to keep Polly Peck's bankers, bondholders and shareholders informed of developments in case they need to seek more cash from them some time in the future.

The administrators have made it clear they hope to keep Polly Peck afloat, and a further cash injection, probably

the purchase of Del Monte, Warburg Soditic (which was responsible for Polly Peck's Swiss franc bond issues), Postal and Friends Provident (both shareholders).

Meanwhile Mr Asif Nadir, Polly Peck's chairman, further delayed a trip to northern Cyprus. The visit, to enable him to assist the administrators in unlocking Polly Peck assets on the island, had already been put off last week to enable Mr Nadir to prepare for a bankruptcy hearing against him. An aide said Mr Nadir was expected to leave the country by the end of the week.

## Further cuts at failed Coloroll's carpet offshoot

By Alice Rawsthorn

The receivers of Coloroll are cutting production and staff at Crossley Carpets, the old Coloroll factory, having so far failed to find a buyer for the business.

Ernst & Young, which was called in as Coloroll's receivers when the group collapsed in June, said it was "still talking" to a number of prospective buyers in the hope of concluding a deal to sell the business as a going concern.

However, Ernst said that as there was no deal in sight, it had no option but to cut the cost base at Crossley.

There have already been significant cuts at the plant. The workforce has been reduced from 1,000 (before the receivership) to between 500 and 600 people. Production has also been cut as the product range has been reduced significantly to concentrate on better selling lines.

Crossley, based at Kidderminster, in Worcestershire, is one of the largest carpet factories in the UK. It was bought by Coloroll as part of its ill-fated acquisition of the John Crowther textile group three years ago.

The carpet market is under intense pressure after two years of depressed demand







91 Waterloo Road London  
SE1 8XP  
Telephone 071 928 3121

31 SA  
141 Avenue Charles de Gaulle  
92381 Neuilly sur Seine Cedex  
France  
Telephone 331 4715 1100

31 SA  
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1 Boulevard Vivier Merle  
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Industriales SA  
Calle Rala de Alarcón  
18-1 Iba  
28016 Madrid Spain  
Telephone 34 1 631 4419

31 SpA  
Via Gaetano  
Negri 8  
20123 Milan Italy  
Telephone 39 2 750 3210

31 Jersey Ltd  
Burford House  
Dow Street  
St Helier Jersey  
Telephone 8524 38229

31 Guernsey Ltd  
Le Beaulieu House  
St George's Leplandale  
St Peter Port Guernsey  
Telephone 8441 21888

31 Capital and 31 Ventures  
89 High Street  
Suite 130  
Boston  
Massachusetts 02110 USA  
Telephone 617 542 8360

31 Capital and 31 Ventures  
450 Newport Center Drive  
Suite 250  
Newport Beach  
California 92660 USA  
Telephone 714 720 1421

31 Ventures  
3000 Sand Hill Road  
Building 3  
Menlo Park  
California 94025 USA  
Telephone 415 854 3330

31 Australia Ltd  
31 Queen Street  
Melbourne  
Victoria 3000 Australia  
Telephone 61 3 614 3349

31BJ  
7F Akasaka Oji Building  
1-22 Akasaka 4-chome  
Minato-ku  
Tokyo 107 Japan  
Telephone 813 497 8321



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مكتبة المجلد



## Bowater's cart before its horse

It is not usual for a \$28m (€15m) factory to open with more than \$1bn worth of orders. But Bowater, the UK packaging and materials group, is in that fortunate position with its new film coating plant in Spartanburg, South Carolina.

Bowater's US industrial films subsidiary, has signed a 10-year contract to supply coated polyester film from the plant to Dynacore, a leading electronic materials manufacturer. David Lyon, Bowater chief executive, says he cannot disclose the financial terms of the agreement, but revenue will be "well beyond \$1bn" and "it definitely enhances the quality of our profits".

Bowater decided to build the factory soon after acquiring Rexham in November 1987, without lining up any customers or orders in advance, in anticipation of the need for extra capacity from an expanded electronics industry in the 1990s. "We judged that, if we built a state-of-the-art plant ahead of our customers' needs, it would be too attractive for them to ignore when it came on stream," Lyon says.

The contract with Dynacore (part of the Morton International group) vindicates that judgment. Rexham will be Dynacore's sole source of laminated film for "dry film photoresist" - used to make printed circuit boards for the electronics industry - until the year 2002. Dynacore, based near Los Angeles, is one of the world's two leading suppliers of this material.

The computer-controlled plant has been built with the high levels of cleanliness - fewer than 100 microscopically sized particles per cubic foot of air - which will be required for electronic materials, as the circuits on printed boards become finer and finer. Even a tiny impurity could lead to a short-circuit.

An unusual feature of the plant is that it runs on the "self-management" principle. The 10 staff manage their own work in teams, without foreman and supervisors. Lyon is keen eventually to introduce self-management into Bowater's UK plants.

Clive Cookson

## Clive Cookson examines ICI's plans to expand into the international seeds business

# Cultivating a bumper harvest

ICI has been buying agricultural seeds companies at the rate of one a year since 1985, when the UK chemicals giant made a strategic decision to go into the international seeds business. Last month's acquisition of Edward J. Funk & Sons, a US maize (corn) business, from BP brought the turnover of ICI Seeds to about \$300m (£150m) a year - fourth in the world league of seed companies.

"We have now achieved our plan of five years ago to build up an integrated international seeds business from scratch," says Keith Pike, public affairs manager of ICI Seeds. "We are now in all the crops in all the parts of the world we wanted to be in."

The attraction of the seeds business is that it gives ICI another commercial opportunity to apply the group's undoubted skills in biotechnology. The long-term aim is to use genetic engineering to bypass the slow process of traditional plant breeding and develop crops with new characteristics such as better yield and quality, controlled ripening and higher resistance to pests and diseases.

Some other multinationals started to weld together a group of regional seed companies into an international business - and then changed their minds after deciding that the commercial pay-off lay too far in the future. Both BP and Shell sold seed companies last month: Shell's Nickerson International went to Limagrain of France, the world's number three seed company.

But ICI insists that it is investing in seeds for the long-term potential of the business, which will not come to full fruition until the next century. A few other international chemical and pharmaceutical companies, including Sandoz and Ciba-Geigy of Switzerland and Upjohn of the US, are taking a similar view and investing heavily in seeds.

The worldwide trade in seeds is estimated at \$15m a year. (Farmers plant an additional \$15m worth of seeds which they save from their own crops.) Maize is the most important single crop, with sales of \$1.6m a year.

Although the seeds business is similar in vital size to the agrochemical industry, it is much more fragmented in structure and lower in overall profitability.

ICI will not disclose the size of its investment in seeds - though published acquisition costs exceed \$200m - nor the profitability of the business.

which is bundled together with ICI Agrochemicals in the group accounts. "It would be unfair to ourselves to disclose a profit figure, because we're a new business and we're having to put a lot of money into integrating the five companies we've acquired," says Pike.

If plant biotechnology lives up to its promise, the crop itself will be armed with genes to kill insects and viruses and to extract nutrition more efficiently from the soil and air. Then farmers will not need to

spread nearly so many traditional agrochemicals and fertilisers on their fields. In a sense, therefore, ICI is investing in seeds as an insurance against the long-term decline of its agrochemical business.

"The shift in value from agrochemicals to seeds will not be felt until the next century," says Ed Dart, research director at ICI Seeds. "And even then it's difficult to think that they're going to replace agrochemicals entirely."

ICI and its competitors in the seeds industry have already overcome the main scientific obstacles to inserting specific genes into crops. They succeeded in the early 1980s with broad-leaved plants such as tomatoes and tobacco.

And this year scientists at ICI and elsewhere have achieved a technically harder and commercially far more important target - producing fertile maize plants with functioning foreign genes. The successful technique is surprisingly direct: DNA (genetic material) is shot directly into maize cells, using a micro-gun invented at Cornell University in the US.

One type of gene that seed companies are inserting into crops confers resistance to particular herbicides. If the farmer plants herbicide-resistant maize and later sprays the field with the same herbicide it should kill all the weeds without harming the crop.

Although this play could be used to promote sales of a particular herbicide, Dart says that ICI Seeds makes independent commercial decisions about which herbicides to use in its genetic engineering programme and is under no pressure to work with those produced by ICI Agrochemicals.

The total quantity of herbicides applied by the world's farmers could be reduced by these developments, he says, if crops are engineered to be resistant to the new generation of herbicides which can be applied at lower dosages. "We calculate that the amount of herbicide used on maize could be reduced by 50 per cent."

Dart forecasts that seeds with single genes added will come on to the market in 1993. The first genetically engineered commercial crop may well be tomatoes that remain ripe for longer before going soft and squasy.

Cereals with resistance to herbicides, insects and viral pests will follow later in the 1990s. The speed with which they are introduced will depend as much on regulatory regime - which looks as though it will be more stringent in Europe than in the US or Japan - as on technical progress.



The new device can also be used to break up very dense rock types, such as granite, and could find additional applications in mining work and in vibration-sensitive environments, such as power plants and railway tunnels, where dynamite cannot be employed.

The "static rock breaker" was developed by Minoru Nishida, professor of metallurgy, and Katsuhiko Kaneko, associate professor of rock mechanics, both of Kumamoto University, in a joint research project with specialists in rock mechanics at the Technical Research Institute of Nishimatsu Construction near Tokyo.

Nishida began by looking for possible new applications for powerful shape-memory alloys he was studying. These alloys of titanium and nickel adopt changed dimensions at different temperatures and return to "memorised" shapes when heated.

The team compared the strain (displacement over total length) and pressure required to break concrete with the expansion characteristics of the alloys. The 29mm-long alloy cylinders used in the concrete "buster" feature a 1.3mm displacement when heated, more than enough to satisfy the 0.2 per cent strain needed to crack concrete, while the pressure exerted is a 100KN (roughly a 10-tonne force), well above the 300kg/sq cm breaking point of concrete.

Various alloy combinations have been tested for different destruction tasks, since each rock type exhibits different strain characteristics. With granite, for example, displacement is less important than power. A 50.5 per cent nickel/49.5 per cent titanium alloy achieved the required force/displacement combination for the

## Silent cracker that breaks the mould

The ear-splitting sounds of pneumatic drills at work on building demolition could soon become a thing of the past following the development by Japanese researchers of a palm-sized "concrete-buster".

The tube-like device, which employs inch-long shape-memory alloy cylinders set within the metal platens, is inserted within boreholes in the unwanted concrete, which it then silently prizes apart and shatters.

The "static rock breaker" was developed by Minoru Nishida, professor of metallurgy, and Katsuhiko Kaneko, associate professor of rock mechanics, both of Kumamoto University, in a joint research project with specialists in rock mechanics at the Technical Research Institute of Nishimatsu Construction near Tokyo.

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"concrete buster" when heated to between 50 deg C and 80 deg C.

The basic operating unit looks like an open-sided pipe and consists of two long, tapered steel platens sandwiching two smaller platens, into which six shape-memory alloy cylinders are mounted vertically. The inner faces of the platens are bevelled, allowing the inner platens, carrying the six small cylinders, to slide back and forth.

Using this feature the whole unit can be pushed tightly into boreholes drilled in the concrete. When the alloy cylinders are heated they lengthen and force the platens wider apart, shattering the surrounding concrete.

Tsutomu Inaba, senior research engineer at Nishimatsu Construction, says that the new system can be handled by a single operator. A number of the rock-breakers are used in conjunction with auxiliary equipment comprising a 10 kg boring machine, a heating unit and a compression machine.

The boring machine is used first. It is a rotary drill, using a diamond-bit which is held in place against the concrete surface by means of a vacuum pump. The machine first bores a hole. Usually five to 10 of the breaker units are positioned across the concrete surface in each operation, and the actual heating and concrete-breaking process is then completed in less than two minutes.

The compression machine is later used to squeeze the individual shape-memory cylinders back to their original dimensions, using a 30-tonne force.

Another Nishimatsu researcher, Atsuo Hirata, claims that "the apparatus is quick, cheap and quiet, something which is very important in urban areas of Japan. About 40 companies have already said they intend to use the device. These include construction firms, steel makers and mining companies".

The Nishimatsu team is still working to develop a tool which can be used to retrieve the "breaker" units which occasionally become wedged within the concrete waste, but is confident that equipment will be available soon.

Roy Garner

Company	Nationality	1988 seed sales (\$m)
Pioneer	US	540
Sandoz	Switzerland	480
Limagrain	France	360
ICI	UK	280
Upjohn	US	270
Cargill	US	240
Dekalb	US	205
Takii	Japan	200
Sakata	Japan	180
KWS	Germany	150
Ciba-Geigy	Switzerland	150

Note: Limagrain and ICI figures include sales of seed companies acquired in 1989. Source: industry estimates.

## ACCOUNTANCY APPOINTMENTS

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and profit-motivated man manager is required whose experience includes multi-site financial management. Interested candidates who meet these specific requirements should write enclosing a comprehensive Curriculum Vitae and daytime telephone number, quoting Ref 472 to: Sarah Dutton, Whitehead Rice, 43 Welbeck Street, London W1M 7PG.

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MANAGEMENT SELECTION



# US go-ahead for C\$3bn Canadian gas pipeline

By Bernard Simon in Toronto

THE US Federal Energy Regulatory Commission has cleared away one of the last remaining hurdles to a \$3bn (£1.3bn) project to pipe natural gas from western Canada to six states along the eastern US seaboard.

The commission yesterday gave its approval to the US portion of the proposed Iroquois Gas Transmission System, which involves a 980 km underground pipeline running from Iroquois, Ontario to Long Island, New York. In a unanimous vote, it overruled objections by domestic producers who contended that the pipeline was not needed, and that the proposed tariff structure discriminated against them.

On the Canadian side of the border, the project involves installing a new trans-continent pipeline, almost 1,500 km long with 21 compressor units and two compressor stations. The new facilities would also be used to expand gas deliveries to customers in east-

ern Canada.

Canada's National Energy Board is expected to approve the Canadian portion of the project within the next few months. The board gave the project's sponsors a boost last week by ruling that the costs of the new pipeline should be rolled into existing gas tariffs, rather than be borne only by new customers.

TransCanada PipeLines, Canada's biggest gas pipeline operator, has a 55 per cent stake in the Iroquois project. Its 12 partners include various US pipeline operators and utilities, such as Tennessee Gas Pipeline, Brooklyn Union Gas and Texas Eastern Transmission.

The Iroquois pipeline will supply gas to New York, New Jersey and most of New England. Its customers will include Consolidated Edison, New York State Electric & Gas Company and Long Island Lighting Company.

It is the most ambitious effort to date by the Canadian gas industry to gain a bigger share of the growing US market for natural gas. The Canadian producers, based in Alberta and British Columbia, currently have a 6 per cent share of the US market, mainly in California.

Besides a go-ahead from Canada's NEB, Iroquois also still needs another US Army Corps of Engineers certificate to build the pipeline over wetlands and rivers. Both the Canadian government and US legislators from north-east states have thrown their support behind the project.

An Iroquois official said yesterday that 40 per cent of the land required for the pipeline had so far been obtained. Construction is expected to start this winter, and the first gas is due to flow through the pipeline in November 1991 at a rate of 50m cubic feet a day. It is expected to reach its full capacity of 576m cu ft a day in late 1992.

exporters, are most exposed to volatile prices, says the report, while in the US, the EC, Japan, the Soviet Union, India and China producers are insulated by subsidies paid for by consumers and taxpayers.

The report points out that in Japan, the US and the EC subsidies in recent years have made up more than half the income of a sugar farmer or sweetener producer.

Freer trade would both reduce the incentives to lobby for intervention and result in better allocation of resources, says the report. Production would shift from the subsidised high cost producers like the US, the EC and Japan to more efficient exporting countries such as Brazil, Thailand, and Australia.

A Survey of the Costs of World Sugar Policies by Brent Brall and Ronald C. Duncan, World Bank working paper on International Trade WPS 322.

## Free trade 'would raise sugar prices'

By David Blackwell

THE REMOVAL of all intervention in the world sugar market would sharply reduce price volatility, according to a World Bank report, and prices overall would probably rise.

The impact of intervention on price volatility has been both adverse and very large, says the report. There is little doubt that US, EC and Japanese policies have separately and jointly greatly lowered world prices. At the same time they have ensured a sustained misallocation of resources in the production and consumption of sweeteners worldwide, not only imposing high costs on their own economies but those of efficient exporting countries as well.

The volatility of the market is illustrated by looking at prices in 1985 and 1974 - which show a swing between 2.5 cents a lb and 120 cents a lb. The average price over the past 35 years, in 1986 values,

has been 16 cents a lb, while the average cost of production is estimated at 20 cents a lb.

The very degree of price volatility "tends to help producers in many countries to lobby for changes in policy which ultimately lead to increases in the supported output of their industries even when prices are low, exacerbating the market's instability."

In times of high prices, world production has increased sharply, but protective policies have stopped a fall in output when prices have been low.

"This protection of expanded production causes world prices to remain depressed for some years. After a time, consumption again exceeds production, and stocks fall to a level where a large weather induced drop in production can again lead to a sharp increase in world prices."

Countries such as Thailand and Australia, which are big

reduction could be accounted for by the sheep slaughter programme, which would cost between A\$60m and A\$100m, financed by the tax on producers. But the scheme will not take effect until next July, leaving the industry to stagger on for a further eight months with production running at about 70 per cent above demand.

The quota scheme may also be difficult to operate in practice since it is likely to trigger thousands of appeals to the wool corporation by farmers who believe they are being treated unfairly. The scheme seems unlikely to head off a bitter confrontation between the government and farmers over a gathering rural crisis that has provoked protest rallies in several states and prompted threats of a march on Canberra.

Mr Peter Taylor, president of the New South Wales Farmers' Association, said farmers would continue to press the government to ease its tight monetary policy, which they claim is responsible for much of their pain.

Farmers' incomes will fall by up to 50 per cent this year, and the Australian Bureau of Agricultural and Resource Economics (Abare), the independent, government-funded research organisation, says the net value of farm production will

## Canberra backs slaughter plan to stabilise wool prices

By Kevin Brown in Sydney

AUSTRALIA'S federal cabinet has endorsed wool industry proposals to slaughter up to 20m sheep and impose production quotas on farmers in the hope of stabilising falling prices. The proposals were tabled last week by the Wool Corporation, the statutory marketing organisation, and the Wool Council, which represents producers.

There were signs, however, that the government might opt for a more radical plan if the industry's proposals failed to stimulate international confidence in the industry.

Mr John Kerin, the primary industries minister, said the government was willing to accept the quota scheme only as a temporary response to the "exceptional circumstances" facing the industry. He has been considering a more substantial slaughtering scheme than that proposed by the industry organisations, but appears to have decided to give the quota scheme a chance to work.

Independent commentators have called for up to 50m of Australia's 170m sheep to be slaughtered to bring production into line with demand. However, ministers are worried about the public relations impact of such a massive slaughtering scheme. Television pictures of slaughtering that has already taken place -



Wool production is running about 70 per cent above demand

mostly of animals too old to be sold for consumption - have raised fears of a public backlash against Australian wool.

The wool industry was hit by falling demand from China, Japan and the Soviet Union just as production reached record levels because of over-generous guaranteed prices under an intervention scheme managed by the Wool Corporation.

Mr Kerin angered farmers earlier this year by cutting the reserve price by 20 per cent to A\$7 (£2.75) a kilogram and increasing the wool tax from 8 per cent to 25 per cent. The tax pays the cost of marketing, intervention and storage.

However, the Government's

slowly than in recent years. Industrial output is also strong, particularly in the petroleum and petrochemical sectors. Demand across the range of industrial applications is forecast to rise by 105,000 tonnes from the 1989 level to 785,000 tonnes.

The weak point is investment demand, which was 680,000 tonnes in 1989, but has fallen for two years running and is now forecast to end 1990 at only 115,000 tonnes.

On the supply side JM has adjusted its 1989 figures for South Africa and Colombia. JM points out that "with a can-

dour unusual in the South African platinum industry," Impala Platinum Holdings recently revealed its production statistics, which resulted in an upward adjustment to JM's figures for South Africa.

The review also predicts a sharp rise in the Soviet Union's sales to the west. Soviet platinum sales are forecast to rise from 440,000 ounces in 1989 to 550,000 ounces. Mr Carson says that, while there is some concern about the possibility of the Soviet Union dumping platinum in the west in order to boost foreign-currency earnings, in the past that country

had been very shrewd in the way it sold its precious metals. In any case "if there was more platinum available I feel they would have sold it."

Total platinum supply in 1990 is now forecast to rise from 3,250 tonnes last year to 3,870 tonnes.

Looking further ahead, Mr Carson says: "We seem to be entering a phase in which supply will grow faster than demand." He adds: "By 1995 up to 1m ounces more platinum will be required by the auto, jewellery and miscellaneous other industries. South African production is being expanded to meet this demand."

"Rustenburg, Leobovaya and Impala have all confirmed plans to increase output. We now have the possibility - at least on paper - of an additional 1.5m ounces by mid-1995."

However, he insists that "there is no certainty that all the expansions will materialise." As if to prove his point, Harplats has announced that its Kennedy's Vale platinum project in the Eastern Transvaal has been shelved.

"Platinum: 1990 interim review," free from Johnson Matthey, 73 Hatfield, London EC1N 8JP.

## Discussion of rubber study delayed

By Lim Siong Hoon in Kuala Lumpur

DELEGATES TO the International Natural Rubber Organisation ended their last council session for the year a day ahead of schedule on Tuesday, evidently satisfied that the market was holding up on its own. And they deferred consideration of a study of the effectiveness of the organisation's price support operation until May next year.

The study, commissioned

last July, was undertaken by the British consultancy Landell Mills Consultancy.

Into said its members needed time to study the implications of the report and its recommendations, partly aimed at strengthening the management of the buffer stock.

The rubber agreement is the last international commodity pact to be operating economic clauses, so its producer mem-

bers are keenly interested in ensuring its survival.

The rubber market, which has been on the slide for much of the year, has recently shown signs of regaining some strength. Into's indicator price has been rising this week after touching its "may buy" level of 178 Malaysia/Singapore cents a kilogram early this month. The five-day average price is currently at 179 cents.

## WORLD COMMODITIES PRICES

### MARKET REPORT

Zinc prices recovered from early falls on the LME yesterday, after three-month metal traded down to \$1,233 a tonne, its lowest since the special high grade contract was introduced in September 1988. Zinc's weakness continues to reflect ample physical supplies and concern over reduced demand from automobile and construction sectors as economic growth slows, dealers said. But yesterday's swift recovery could prompt further short covering. Copper ended a sluggish afternoon easier but at the day's high after an early rally on Comex. Robusta coffee prices in London closed ahead. The release of the Licht report on the

1990/91 world coffee balance - which estimated that consumption would outpace production by 8m 60-kilo bags - had no apparent impact on prices, traders said. With supply good and no new fundamentals, they foresaw no change to the current dull market sentiment. In Chicago soybeans were mostly lower at mid-session on professional and commission house selling, setting new lows to keep the chart picture bearish, traders said. The new lows mean all long positions are showing losses, which makes speculators willing sellers into rally attempts that always seem to fail.

Compiled from Reuters

### London Markets

SPOT MARKETS		
Brent Blend (per barrel FOB)	27.65-6.70y	+ or -
Brent Blend (dated)	32.00-2.10	-1.00
Brent Blend (December)	32.00-1.0	-0.75
WTI (1 pm est)	32.00-2.0	-1.22
Oil products		
WTI prompt delivery per tonne CIF		+
Premium Gasoline	\$310-41.5	+1.5
Gas Oil	\$311-31.2	+1
Heavy Fuel Oil	\$129-13.1	+2
Naphtha	\$311-31.8	+1
Petroleum Argon Estimates		
Other		+1 or +
Gold (per troy oz)	\$384.25	+
Silver (per troy oz)	42.25	+
Platinum (per troy oz)	241.65	+2.5
Palladium (per troy oz)	\$380.15	-0.85
Aluminium (three market)	\$1815	+10
Copper (US Producer)	121c	+1
Lead (US Producer)	90c	+
Nickel (free market)	41.25c	+
Tin (Kuala Lumpur market)	16.25c	-0.09
Tin (New York)	28.00c	+
Zinc (US Prime Western)	70c	+
Cattle (live weight)	130.25p	+0.5
Sheep (dead weight)	138.00p	+0.7
Pigs (live weight)	76.00p	+
London daily sugar (raw)	\$270.70	-4.8
London daily sugar (white)	\$314.65	-5.0
Tate and Lyle export price	\$314.65	+3.0
Barley (English feed)	£117.5	+
Maize (US No. 3 yellow)	£190.0	+
Wheat (US Dark Northern)	\$281.0u	+
Rubber (DacV)	51.25p	+0.25
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Rubber (Latex)	51.25p	+0.25
Cocoa oil (Philippines)	\$336.00	+
Palm Oil (Malaysia)	\$336.00	-5.0
Copra (Philippines)	\$340.00	-2.5
Soybeans (US)	13.50	+
Cotton "A" Index	82.00	+0.05
Wooltop (44 Super)	38.00	+
a = hence unless otherwise stated, p=pence, u = US dollars		
Source: London physical market, SGF Reference Index, London physical market,		

DOCK - LONDON FIVE	Close	Previous	High/Low
Dec 858	557	552	553
Jan 701	702	700	700
Mar 726	728	726	724
Jul 787	782	780	780
Sep 774	773	777	778
Dec 801	800	804	800
Mar 820	820	821	820

TURNER 367 (207) lots of 10 tonnes	Close	Previous	High/Low
ICO indicator price (US cents per pound) for Nov 13	13.885	13.885	13.885
Nov 13	13.885	13.885	13.885
Nov 14	13.885	13.885	13.885

COFFEE - LONDON FIVE	Close	Previous	High/Low
Nov 581	583	580	583
Jan 576	584	582	584
Mar 581	584	582	584
Jul 581	584	582	584
Sep 581	584	582	584
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ICO indicator price (US cents per pound) for Nov 13	13.885	13.885	13.885
Nov 13	13.885	13.885	13.885
Nov 14	13.885	13.885	13.885







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MOTORS, AIRCRAFT TRADES

Table with 4 columns: Stock, Price, % Chg, and P/E. Includes sub-sections for 'Comments' and 'Garages and Distributors'.

PROPERTY - Contd

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various property-related companies.

INVESTMENT TRUST - Contd

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various investment trusts.

INVESTMENT TRUST - Contd

Table with 4 columns: Stock, Price, % Chg, and P/E. Continuation of investment trusts.

OIL AND GAS - Contd

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various oil and gas companies.

MINES - Contd

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various mining companies.

NEWSPAPERS, PUBLISHERS

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various newspaper and publishing companies.

SHOES AND LEATHER

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various shoe and leather companies.

FINANCE, LAND, ETC

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various finance, land, and other companies.

PLANTATIONS

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various plantation companies.

OVERSEAS TRADERS

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various overseas trading companies.

THESE MARKET

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various companies in the 'these market'.

PAPER, PRINTING, ADVERTISING

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various paper, printing, and advertising companies.

SOUTH AFRICANS

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various South African companies.

WATER

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various water-related companies.

MINES

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various mining companies.

DIAMOND AND PLATINUM

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various diamond and platinum companies.

REGIONAL & IRISH STOCKS

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various regional and Irish stocks.

PROPERTY

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various property companies.

TOBACCOS

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various tobacco companies.

TRANSPORT

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various transport companies.

WATER

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various water companies.

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WATER

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various water companies.

WATER

Table with 4 columns: Stock, Price, % Chg, and P/E. Lists various water companies.



## AUTHORISED UNIT TRUSTS

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**GREEN PEARL,**  
1125 New Oxford Street, London WC1A 1TG  
Tel. 071 - 379 - 0606.

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36 Old Jewry, London EC2R 6ES  
Public Day 071-406 0404 Brother Day 071-406 0413  
Brother Frank

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LUXEMBOURG (REGULATED)									
Fund Name	Unit Price	Change	Yield	Assets	Liabilities	Net Assets	NAV	Dividend	Notes
Amundi Global Fund	10.12	+0.01	4.5%	1,200	100	1,100	10.12	0.10	
Amundi Europe Fund	9.85	+0.02	5.2%	1,100	90	1,010	9.85	0.12	
Amundi Asia Fund	11.50	+0.03	3.8%	1,300	110	1,190	11.50	0.15	
Amundi US Fund	12.20	+0.04	4.1%	1,400	120	1,280	12.20	0.18	
Amundi Japan Fund	13.10	+0.05	3.5%	1,500	130	1,370	13.10	0.20	
Amundi Australia Fund	14.00	+0.06	3.2%	1,600	140	1,460	14.00	0.22	
Amundi Canada Fund	15.00	+0.07	3.0%	1,700	150	1,550	15.00	0.25	
Amundi New Zealand Fund	16.00	+0.08	2.8%	1,800	160	1,640	16.00	0.28	
Amundi South Africa Fund	17.00	+0.09	2.5%	1,900	170	1,730	17.00	0.30	
Amundi Brazil Fund	18.00	+0.10	2.2%	2,000	180	1,820	18.00	0.32	
Amundi Russia Fund	19.00	+0.11	2.0%	2,100	190	1,910	19.00	0.35	
Amundi China Fund	20.00	+0.12	1.8%	2,200	200	2,000	20.00	0.38	
Amundi India Fund	21.00	+0.13	1.5%	2,300	210	2,090	21.00	0.40	
Amundi Korea Fund	22.00	+0.14	1.2%	2,400	220	2,180	22.00	0.42	
Amundi Taiwan Fund	23.00	+0.15	1.0%	2,500	230	2,270	23.00	0.45	
Amundi Hong Kong Fund	24.00	+0.16	0.8%	2,600	240	2,360	24.00	0.48	
Amundi Singapore Fund	25.00	+0.17	0.5%	2,700	250	2,450	25.00	0.50	
Amundi Malaysia Fund	26.00	+0.18	0.3%	2,800	260	2,540	26.00	0.52	
Amundi Thailand Fund	27.00	+0.19	0.1%	2,900	270	2,630	27.00	0.55	
Amundi Philippines Fund	28.00	+0.20	0.0%	3,000	280	2,720	28.00	0.58	
Amundi Indonesia Fund	29.00	+0.21	0.0%	3,100	290	2,810	29.00	0.60	
Amundi Vietnam Fund	30.00	+0.22	0.0%	3,200	300	2,900	30.00	0.62	
Amundi Cambodia Fund	31.00	+0.23	0.0%	3,300	310	2,990	31.00	0.65	
Amundi Laos Fund	32.00	+0.24	0.0%	3,400	320	3,080	32.00	0.68	
Amundi Myanmar Fund	33.00	+0.25	0.0%	3,500	330	3,170	33.00	0.70	
Amundi Sri Lanka Fund	34.00	+0.26	0.0%	3,600	340	3,260	34.00	0.72	
Amundi Bangladesh Fund	35.00	+0.27	0.0%	3,700	350	3,350	35.00	0.75	
Amundi Pakistan Fund	36.00	+0.28	0.0%	3,800	360	3,440	36.00	0.78	
Amundi Nepal Fund	37.00	+0.29	0.0%	3,900	370	3,530	37.00	0.80	
Amundi Bhutan Fund	38.00	+0.30	0.0%	4,000	380	3,620	38.00	0.82	
Amundi Maldives Fund	39.00	+0.31	0.0%	4,100	390	3,710	39.00	0.85	
Amundi Sri Lanka Fund	40.00	+0.32	0.0%	4,200	400	3,800	40.00	0.88	
Amundi Bangladesh Fund	41.00	+0.33	0.0%	4,300	410	3,890	41.00	0.90	
Amundi Pakistan Fund	42.00	+0.34	0.0%	4,400	420	3,980	42.00	0.92	
Amundi Nepal Fund	43.00	+0.35	0.0%	4,500	430	4,070	43.00	0.95	
Amundi Bhutan Fund	44.00	+0.36	0.0%	4,600	440	4,160	44.00	0.98	
Amundi Maldives Fund	45.00	+0.37	0.0%	4,700	450	4,250	45.00	1.00	
Amundi Sri Lanka Fund	46.00	+0.38	0.0%	4,800	460	4,340	46.00	1.02	
Amundi Bangladesh Fund	47.00	+0.39	0.0%	4,900	470	4,430	47.00	1.05	
Amundi Pakistan Fund	48.00	+0.40	0.0%	5,000	480	4,520	48.00	1.08	
Amundi Nepal Fund	49.00	+0.41	0.0%	5,100	490	4,610	49.00	1.10	
Amundi Bhutan Fund	50.00	+0.42	0.0%	5,200	500	4,700	50.00	1.12	
Amundi Maldives Fund	51.00	+0.43	0.0%	5,300	510	4,790	51.00	1.15	
Amundi Sri Lanka Fund	52.00	+0.44	0.0%	5,400	520	4,880	52.00	1.18	
Amundi Bangladesh Fund	53.00	+0.45	0.0%	5,500	530	4,970	53.00	1.20	
Amundi Pakistan Fund	54.00	+0.46	0.0%	5,600	540	5,060	54.00	1.22	
Amundi Nepal Fund	55.00	+0.47	0.0%	5,700	550	5,150	55.00	1.25	
Amundi Bhutan Fund	56.00	+0.48	0.0%	5,800	560	5,240	56.00	1.28	
Amundi Maldives Fund	57.00	+0.49	0.0%	5,900	570	5,330	57.00	1.30	
Amundi Sri Lanka Fund	58.00	+0.50	0.0%	6,000	580	5,420	58.00	1.32	
Amundi Bangladesh Fund	59.00	+0.51	0.0%	6,100	590	5,510	59.00	1.35	
Amundi Pakistan Fund	60.00	+0.52	0.0%	6,200	600	5,600	60.00	1.38	
Amundi Nepal Fund	61.00	+0.53	0.0%	6,300	610	5,690	61.00	1.40	
Amundi Bhutan Fund	62.00	+0.54	0.0%	6,400	620	5,780	62.00	1.42	
Amundi Maldives Fund	63.00	+0.55	0.0%	6,500	630	5,870	63.00	1.45	
Amundi Sri Lanka Fund	64.00	+0.56	0.0%	6,600	640	5,960	64.00	1.48	
Amundi Bangladesh Fund	65.00	+0.57	0.0%	6,700	650	6,050	65.00	1.50	
Amundi Pakistan Fund	66.00	+0.58	0.0%	6,800	660	6,140	66.00	1.52	
Amundi Nepal Fund	67.00	+0.59	0.0%	6,900	670	6,230	67.00	1.55	
Amundi Bhutan Fund	68.00	+0.60	0.0%	7,000	680	6,320	68.00	1.58	
Amundi Maldives Fund	69.00	+0.61	0.0%	7,100	690	6,410	69.00	1.60	
Amundi Sri Lanka Fund	70.00	+0.62	0.0%	7,200	700	6,500	70.00	1.62	
Amundi Bangladesh Fund	71.00	+0.63	0.0%	7,300	710	6,590	71.00	1.65	
Amundi Pakistan Fund	72.00	+0.64	0.0%	7,400	720	6,680	72.00	1.68	
Amundi Nepal Fund	73.00	+0.65	0.0%	7,500	730	6,770	73.00	1.70	
Amundi Bhutan Fund	74.00	+0.66	0.0%	7,600	740	6,860	74.00	1.72	
Amundi Maldives Fund	75.00	+0.67	0.0%	7,700	750	6,950	75.00	1.75	
Amundi Sri Lanka Fund	76.00	+0.68	0.0%	7,800	760	7,040	76.00	1.78	
Amundi Bangladesh Fund	77.00	+0.69	0.0%	7,900	770	7,130	77.00	1.80	
Amundi Pakistan Fund	78.00	+0.70	0.0%	8,000	780	7,220	78.00	1.82	
Amundi Nepal Fund	79.00	+0.71	0.0%	8,100	790	7,310	79.00	1.85	
Amundi Bhutan Fund	80.00	+0.72	0.0%	8,200	800	7,400	80.00	1.88	
Amundi Maldives Fund	81.00	+0.73	0.0%	8,300	810	7,490	81.00	1.90	
Amundi Sri Lanka Fund	82.00	+0.74	0.0%	8,400	820	7,580	82.00	1.92	
Amundi Bangladesh Fund	83.00	+0.75	0.0%	8,500	830	7,670	83.00	1.95	
Amundi Pakistan Fund	84.00	+0.76	0.0%	8,600	840	7,760	84.00	1.98	
Amundi Nepal Fund	85.00	+0.77	0.0%	8,700	850	7,850	85.00	2.00	
Amundi Bhutan Fund	86.00	+0.78	0.0%	8,800	860	7,940	86.00	2.02	
Amundi Maldives Fund	87.00	+0.79	0.0%	8,900	870	8,030	87.00	2.05	
Amundi Sri Lanka Fund	88.00	+0.80	0.0%	9,000	880	8,120	88.00	2.08	
Amundi Bangladesh Fund	89.00	+0.81	0.0%	9,100	890	8,210	89.00	2.10	
Amundi Pakistan Fund	90.00	+0.82	0.0%	9,200	900	8,300	90.00	2.12	
Amundi Nepal Fund	91.00	+0.83	0.0%	9,300	910	8,390	91.00	2.15	
Amundi Bhutan Fund	92.00	+0.84	0.0%	9,400	920	8,480	92.00	2.18	
Amundi Maldives Fund	93.00	+0.85	0.0%	9,500	930	8,570	93.00	2.20	
Amundi Sri Lanka Fund	94.00	+0.86	0.0%	9,600	940	8,660	94.00	2.22	
Amundi Bangladesh Fund	95.00	+0.87	0.0%	9,700	950	8,750	95.00	2.25	
Amundi Pakistan Fund	96.00	+0.88	0.0%	9,800	960	8,840	96.00	2.28	
Amundi Nepal Fund	97.00	+0.89	0.0%	9,900	970	8,930	97.00	2.30	
Amundi Bhutan Fund	98.00	+0.90	0.0%	10,000	980	9,020	98.00	2.32	
Amundi Maldives Fund	99.00	+0.91	0.0%	10,100	990	9,110	99.00	2.35	
Amundi Sri Lanka Fund	100.00	+0.92	0.0%	10,200	1,000	9,200	100.00	2.38	



## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

## Political fears hit sterling

Political factors were behind a further weakening of sterling yesterday. The pound lost ground in the Far East on the threat to Mrs Margaret Thatcher's position as UK prime minister following the attack on her by Sir Geoffrey Howe, her former deputy prime minister. It therefore came as little surprise when Mr Michael Heseltine, a former defence secretary, announced his decision to challenge for the Conservative leadership.

Fears that a leadership battle will cause electoral harm to the government put further pressure on the pound against its partners in the European Monetary System. Sterling remained at the bottom of the EMS exchange rate mechanism, and by the end of the day showed a significant weakening against all other members.

Interest rate factors also weighed on the British currency. Mr John Major, chancellor of the exchequer, told parliament in London that interest rates will not be cut until he is satisfied that it is safe to do so, but he also admitted that the UK economy is probably in recession. Set against this was speculation that the German Bundesbank will raise interest rates again, although dealers in Frankfurt

do not consider an increase is likely today's Bundesbank council meeting.

In Amsterdam the Dutch Central Bank responded to a slight weakening of the guilder against the D-Mark by increasing its money market intervention rate for special advances to 8.30 from 8.20 per cent.

At the London close the pound had fallen to DM2.8876 from DM2.8975, leaving the D-Mark about 1.75 per cent above its central rate against sterling, compared with 1.42 per cent on Tuesday. There was some relief however from a general easing of the peseta. The Spanish currency was only 3.94 per cent above its sterling central rate, against 4.28 per cent previously. This meant that despite its overall weakness the pound's effective floor against the D-Mark had fallen to about DM2.83 from DM2.85.

Sterling also lost 30 points to \$1.9615, while declining to FF9.735 from FF9.7775; to SF2.4450 from SF2.4600; and to Y254.25 from Y254.50. Its index fell to 93.7 from 93.9.

Speculation that US monetary policy may have been eased at Tuesday's meeting of the Federal Open Market Committee led to a further decline of the dollar. It finished in London at a record closing low of DM1.4715 compared with DM1.4800 previously. The dollar also fell to FF4.9625 from FF4.9775 and to SF1.2480 from SF1.2523. Its index was unchanged at 60.1.

Technical factors pushed the Federal funds rate up to 8 1/4 per cent in New York, well above the assumed target level, and it was therefore impossible to put any accurate interpretation on the Fed's action to add liquidity, via overnight system repurchase agreements.

EMS EUROPEAN CURRENCY UNIT RATES									
	Unit	Central Rate	Current Rate	% Change	% Spread	Divergence	Intervention		
Spain/Peseta	133.33	160.36	160.36	-0.23	3.94	43			
Italy/Lira	2036.37	1,376.03	1,376.03	-0.23	3.94	43			
France/Franc	6.55	166.63	166.63	-0.23	3.94	43			
Germany/D-Mark	1.93	166.63	166.63	-0.23	3.94	43			
Netherlands/Guilder	2.20	166.63	166.63	-0.23	3.94	43			
Belgium/Franc	36.36	166.63	166.63	-0.23	3.94	43			
Portugal/Escudo	200.48	166.63	166.63	-0.23	3.94	43			
Greece/Drachma	200.48	166.63	166.63	-0.23	3.94	43			
Finland/Marca	5.94	166.63	166.63	-0.23	3.94	43			
Austria/Schilling	13.76	166.63	166.63	-0.23	3.94	43			
Switzerland/Franc	2.00	166.63	166.63	-0.23	3.94	43			

Unit central rates set by the European Commission. Cent rates are in descending order of strength. Percentage change is for 1990. A positive change denotes a weak currency. Divergence shows the ratio between two currencies. The percentage difference between the actual market and the central rate for a currency, and the maximum permitted percentage difference between the actual market rate from the central rate for a currency.

## POUND SPOT - FORWARD AGAINST THE POUND

Neerlands	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.59	
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## WORLD STOCK MARKETS

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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on Page 49

هكذا مزج الأحماء



**NASDAQ NATIONAL MARKET**

3pm prices November 14

[illegible]

**3pm prices**  
**November 14**

[illegible]

**071-873 4839.**

**FINANCIAL TIMES**  
NUMBER ONE SOUTHWARK BRIDGE,  
London SE1 9HL

London SE1 9NL



## AMERICA

## Falling oil price offsets disappointment with Fed

## Wall Street

FURTHER falls in oil prices offset disappointment at the lack of an easing in monetary policy by the Federal Reserve to leave share prices mostly higher in subdued trading yesterday morning, writes Patrick Harverson in New York.

At 1.30 pm the Dow Jones Industrial Average was 22.7 higher at 2,558.17 on moderate volume. The Standard & Poor's 500 posted a rise of 1.43 at 319.10 by 1 pm, while away from the big board the American SE composite was up 1.01 at 296.57. On the New York Mercantile Exchange, December crude oil was down \$1.02 cents at \$23.10.

The market remains confident that the Fed will ease monetary policy soon, but is unsure about the timing of the move. Technical factors in the Fed funds market yesterday prevented the Fed from sending a clear sign of easing, and analysts believe that the authorities might put off any change in policy until after the latest consumer prices data are released on Friday.

Yesterday's retail sales data, for the month of October, failed to stir much interest. The 0.1 per cent increase was

in line with expectations. Analysts noted that, if the rise in petrol station takings was excluded, retail sales in the month actually fell by 0.1 per cent, providing further proof of the slowdown in the economy.

Once again financial stocks were actively traded before the anticipated interest rate cut. American Express moved ahead early, before lunchtime profit-taking took hold and the shares dropped back to \$22.4, down 3/4 on the session. Citicorp put on 3/4 to \$14.4 on volume of more than 1m shares in the wake of comments from Mr John Reed, chairman, that the bank would not be cutting jobs in its European operations.

Among the market's leading issues, IBM gained 1/4 to \$113.7, on reports suggesting that the stock was due for a sustained recovery. Philip Morris recovered from Tuesday's concern over sluggish cigarette sales, rising 3/4 to \$49.7.

Ford rose 3/4 to \$23 after announcing a 7.5 per cent improvement in car sales in the first 10 days of November, compared with the same period a year ago. USX climbed 3/4 to \$32.7, after Mr Carl Icahn, the corporate raider who holds a sizeable stake in USX, once again rattled his drum in the

fight to restructure the steel group. MCA shot up 3/4 to \$66.7 on hopes that the terms of its acquisition by the Japanese giant, Matsushita, would be agreed shortly.

Baker Hughes dropped 3/4 to \$28.4 on news of unexciting fourth-quarter profits. The American Depository Receipts of LM Ericsson Telephone, the US subsidiary of the Swedish telecommunications group, dropped 3/4 to \$37.4 in busy trading after a London-based analyst at Merrill Lynch, the US broking house, downgraded the parent group's stock from a short-term "buy" to a "hold" and lowered his 1991 and 1992 earnings forecasts.

## Canada

THE REBOUND on Wall Street failed to lift spirits in Toronto, where share prices extended their opening losses. Gold shares fell after bullion prices dropped in New York.

The composite index lost 14.0 to 3,121.1 on volume of 11.2m shares. Declines led advances by 22 to 169.

Hees International Bancorp dropped 3/4 to \$60.7 after reporting a rise in nine-month earnings: the shares had jumped more than \$3 since the beginning of the month.

## Athens tumbles as tone of optimism fades

Kerin Hope reports on the ups and recently precipitous downs of Greek share prices

SUCCESSFUL traders on the Athens Stock Exchange are recognisable by their barrel-chested physique and the sort of dramatic gesture usually associated with opera singers.

Trading on the small floor in Sophocleous Street is by open outcry, but conditions have grown so crowded that resilient vocal chords and a fair for attracting attention are essential for getting through the day's business.

Six new brokerages have joined the 30 individual Greek stockbrokers in the past year, and applications are pending from another 19 securities houses.

The Stock Exchange council will soon have to decide whether spectators should be banished from the hall to make room for a second trading ring.

Such feverish activity was the result of a record surge in share prices between January and mid-July. After starting the year at 460, the Athens

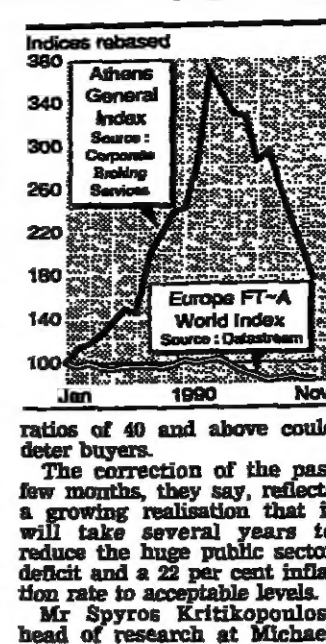
general index climbed steadily to peak at 1,684 in July.

Then came a summer holiday lull, followed by the Gulf crisis and the failure of Athens' bid to stage the 1996 Olympic Games. The index had receded to 972 by the end of October. Daily volume has sunk from 80m (\$32m) to less than 20m.

On Monday the index plunged 7.3 per cent in a single day to close at 721.4. It has recovered since then, however, finishing at 819.93 yesterday, up 4.8 per cent on the day and 9 per cent since Monday, although the index remains more than 50 per cent below its July peak.

Greek analysts agree that most stocks were substantially overvalued in what they call "the casino days of spring".

When expectations were high that the newly elected Conservative government would solve the country's economic problems at record speed. At that point, not even price/earnings



ratios of 40 and above could deter buyers.

The correction of the past few months, they say, reflects a growing realisation that it will take several years to reduce the huge public sector deficit and a 20 per cent inflation rate to acceptable levels.

Mr Spyros Kritikopoulos, head of research at Michael

Kyrans and Associates, says: "Investors' concern now is focused less on the price of oil and war anxieties than what the Greek budget for 1991 will contain."

Foreign institutional investors started moving out of the Athens market in midsummer. Their holdings have dropped from an estimated 30 per cent of total capitalisation six months ago to about 15 per cent.

Yet total capitalisation, which began the year at \$5.2m and reached \$15.5m in July, has remained high. It was estimated at \$15.7m at the end of last month.

This is partly attributable to this year's rush by local companies to seek listings, together with a legal requirement that banks acting as underwriters must support the issue price during the first six months of trading.

A total of 21 companies floated share issues between March and October, compared

## ASIA PACIFIC

## Nikkei ends easier after short stay above 24,000

## Tokyo

EQUITIES retreated on profit-taking yesterday after passing the 24,000 level briefly for the first time in six trading days. The Nikkei average ended slightly lower on balance after cutting its morning losses, writes Emiko Terazono in Tokyo.

Morning profit-taking, triggered by a dip on Wall Street, a lower yen and higher oil prices, pushed the Nikkei to a day's low of 23,629.32. A later rebound on futures and index-linked buying helped the average rise to 24,045.83 before it closed a net 36.23 down at 23,937.44.

Volume remained sluggish and was down to 350m shares from 400m, with the market still dealer-led. Losses finally led gains by 493 to 458, with 134 issues unchanged. The Topix index of all first-section stocks shed just 2.72 to 1,770.20 and, in London, the ISE/Nikkei 50 index managed a slight gain of 1.92 at 1,824.11.

Most institutional investors remained reluctant to participate in the cash markets, and activity was concentrated in futures and options. Mr Graham Biggart at Schroder Securities commented: "People felt that the previous gains were overdone. Everyone felt comfortable with the market falling back a little."

Big interest rate-sensitive companies reacted to the Bank of Japan's absorption of funds in the domestic money market, causing interest rates to firm. Steels, electricals and power utilities lost ground.

Kawasaki Steel fell ¥13 to ¥415 and Nippon Steel ¥8 to ¥727. Other international blue chips declined on profit-taking, with Sony down ¥250 to ¥5,930 and TOR ¥90 lower at ¥4,700. Hitachi, Toshiba, and Pioneer Electronic also weakened.

Saitama Bank and Kyowa Bank, which on Tuesday announced a merger from next April 1, both ended at ¥1,000,

with Saitama gaining ¥90 and Kyowa losing ¥40 from the previous day. The two issues attracted demand at the opening of the session.

Constructions, strong for the past few weeks, were losers yesterday, with Nishimatsu Construction down ¥40 to ¥1,970 and Hozumi Gumi ¥30 off at ¥1,300. The sector was hurt by a newspaper report that leading contractors Kumagai Gumi, Toda Construction and Fujita would be posting stock losses. Kumagai Gumi, whose stock loss is estimated at about ¥60m for the half year ended September 30, fell ¥29 to ¥810. Toda and Fujita also weakened.

Electrical engineers rose, with Tohoku Electrical Construction hitting a year's high in the morning and ending at ¥3,380, up ¥160. The company announced a 33 per cent increase in pre-tax profits.

Retailers advanced in anticipation of the end-of-year, giving season in Japan. Jusco went up ¥50 to ¥1,590 and Ito-Yokado rose ¥110 to ¥730.

Makers of video games were popular. Sega Enterprises climbed ¥800 to ¥13,900 on sales of its 16-bit home video game, and Nintendo, favoured because of its high advance orders for new home video game hardware, rose ¥700 to ¥24,900 in Osaka.

In Osaka, the OSE average added 193.15 at 27,572.88 as regional issues drew buying. Trading volume was also up, from 30.4m shares to 37m.

## Roundup

REGIONAL markets mostly declined in quiet trading, with only Taiwan and the Philippines keeping the previous day's rally going.

AUSTRALIA eased in mostly thin trading, as News Corp and Adelaide suffered renewed selling pressure. The All-Ordinaries index slipped 3.6 to 1,345.2 in turnover of \$817m, boosted by a large business in S.A. Brewing, which saw

14.23m shares traded and rose 7 cents to \$32.37.

News Corp weakened 8 cents to \$56.94 and Adelaide lost 4 cents to 56 cents. Tooth and Co, an Adelaide associate, fell 15 cents to 80 cents after the sale of its Penfold wine business to S.A. Brewing this week.

Westpac gained 2 cents to \$3.97 before its results.

NEW ZEALAND was led lower by stocks that are also listed in Australia, after a rise in the New Zealand dollar against the Australian currency. The Barclays index shed 16.90, or 1.3 per cent, to 1,274.19, a six-year low. Turnover shrank to NZ\$7.5m from NZ\$12m.

HONG KONG ended above the 3,000 resistance level on the Hang Seng index, but below the day's best. The index closed at 3,006.92, up 7.95, after trading wound HK\$1.07bn, against Tuesday's HK\$1.08bn.

Sun Hung Kai Properties advanced 60 cents to HK\$14.50 on talk that it would pull out of the cable-TV franchise.

TAIWAN rose another 3 per cent on optimism about the Gulf and lower oil prices, after the previous day's 6.7 per cent jump. The weighted index added 11.22 to 3,550.27 in turnover of TW\$9.1bn (TW\$4.7bn).

MANILA also gained further ground on hopes that war in the Middle East was not imminent and continued speculation that Philippine National Bank would pay a big dividend. The bank's shares moved ahead 9.50 points to 252.50, after an earlier drop to 243.00.

BANGKOK declined as investors took profits in reaction to rising interest rates and fears of political instability. The SET index receded 7.24 to 652.13.

KUALA LUMPUR was mixed, the composite index edging up 0.65 to 472.85. Conplant, which could receive an extraordinary gain of M\$159m from a proposed land sale to Sime-UEP Properties, rose another 6 cents to M\$2.17.

## EUROPE

## Milan closes account with surprise decline

DOMESTIC political or corporate preoccupations pushed the Milan stock market into the background yesterday, writes Our Markets Staff.

MILAN tumbled, the Comit index dropping 11.78, or 2.2 per cent to 520.62 in heavy trading as the market reacted to further suggested modifications in the impending capital gains tax, job cuts at Olivetti and the fragile condition of the domestic motor industry.

Traders said that the proposal for a flat 30 per cent rate, half to be collected at source and the other half to be declared by shareholders, could prompt some investors to leave the market rather than reveal their positions.

Olivetti confirmed that it wanted to reduce its worldwide work force by about 7,000 from 55,000, and the shares fell another 1.256, or 7 per cent, to L\$4.11, also in Mr Carlo de Benedetti's stable, the holding company Crio dropped 7.3 per cent to L\$2.64. Fiat, meanwhile, fell another L\$2.63 to L\$5.61.

Mr Roberto Morelli, of Cometa West, said that a "fake" takeover was very unusual on the last day of the stock exchange account, when traders would normally be clearing their positions. "It sounds like people are taking their short positions into the next account," he said. "This is not an encouraging sign."

FRANKFURT resisted another drop below 1,400 on the DAX, the 30-share index reversing Tuesday's pattern to close 3.32 higher at 1,406.23 after an earlier drop to 1,384.62, and a fall of 7.57 to 609.41 in the FAZ at mid-session.

Volume shrank from DM\$4.4bn to DM\$4.1bn. Siemens improved general sentiment as it raised its dividend from DM12.50 to DM13, and saw its own shares rise from DM\$87 in a period of early weakness to DM\$99, up DM\$12, after hours.

Banks found a friend in Nomura, the Japanese securities house, which credited them with "above average" earnings growth prospects, superior asset quality and largely domestically driven profits. On the day the shares

rose from DM\$4.4bn to DM\$4.1bn. Siemens improved general sentiment as it raised its dividend from DM12.50 to DM13, and saw its own shares rise from DM\$87 in a period of early weakness to DM\$99, up DM\$12, after hours.

## SOUTH AFRICA

A FURTHER rise in the financial rand left most mining shares slightly lower in thin Johannesburg trading yesterday. The all-gold index lost 8 to a year's low of 1,315, but the industrial index gained 17 to 2,730.

thought otherwise, Deutsche Bank and Dresdner easing DM1 and DM1.50, to DM\$576 and DM\$41.50 respectively.

Chemicals improved in spite of bearish comment. Hoechst leading with a DM\$ rise to DM\$184 after the previous day's 22 per cent drop in nine-month profits, and its unwillingness to make a 1990 dividend forecast at this stage. There was a suggestion that the clearing of short positions which helped the shares rise was even more effective in this sector.

PARIS lost most of Tuesday's gains, as the CAC 40 index dropped 11.00 to 1,599.13. Turnover was said to be less than the previous day's FF\$1.7bn, although selected stocks showed some life.

St. Rochette, the paper maker, jumped FF\$6.80 to FF\$116.60 on 356,000 shares after saying that its talks with foreign companies about the potential benefits of a link-up had intensified.

Lyonnais des Eaux rose FF\$12 to FF\$503 with 137,450 shares traded, while Sanofi-Synthelabo dropped FF\$16.50 to FF\$363 on 197,330 shares after a

report that turnover had fallen in the third quarter.

Eurotunnel continued to fall in heavy trading; its shares were down FF\$1.50 at FF\$32.50, with 2.7m exchanged, and its rights package lost 84 centimes to FF\$2.60.

STOCKHOLM fell by 1.4 per cent as the Affarsvärlden General index closed 12.3 lower at 862.5 after Merrill Lynch severely downgraded its earnings forecasts for Ericsson, and Country NatWest issued a sell recommendation for Volvo.

Interim earnings reports for Volvo, Ericsson and the industrial gas group, Aga, are due today. Volvo B shares fell SK\$11 to SK\$209. Ericsson, with Merrill Lynch's 1991 and 1992 targets reduced by 13 and 25 per cent respectively, fell SK\$6 to SK\$208.

COPENHAGEN declined as the possibility of a general election grew following the breakdown of talks between political parties on economic reforms. The bourse index fell 2.82 to 336.35.

Norvo Norsk, the pharmaceutical company, bucked the trend initially, rising to DK\$225

after announcing nine-month results. But it could not sustain its early gains and closed DK\$2 lower at DK\$221.

Baltica Holding dropped DK\$68, or 6.7 per cent, to DK\$900 after the company ended speculation on Monday of a takeover by Hestia, which has said it holds a 33.5 per cent stake in Baltica. Hestia eased DK\$14 to DK\$855.

OSLO fell to a year's low in moderate trading as investors took profits in oil shares. The all-share index lost 5.68 to 481.14, with Norsk Hydro down SK\$7 at SK\$193 and Saga A shares losing SK\$3 to SK\$82.

BRUSSELS fell, with the cash market index dropping 34.51 to 6,106.24. Banco dropped BF\$100, or 7.1 per cent, to BF\$1,300 after it said that second half profits would be lower than expected.

Gruppe AG gained BF\$7 to BF\$7,680. There was a report that the company, which has merged its insurance activities with those of Amey of the Netherlands, was planning an exceptional gross dividend of BF\$133.33 a share and a four-for-one share split.

MADRID slipped, with the general index down 0.97 at 230.73. In banking, Banco Central gained Ptas\$20 to Ptas\$44. While Popular lost Ptas\$6 to Ptas\$730.

AMSTERDAM inched higher in another day of quiet trading, spent tracking the Frankfurt bourse; the CBS Tendency index added 0.2 to 94.8. The weakness of the dollar continued to raise worries about exporters' earnings.

Van Ommen Ceteo, the transport and storage company, gained FL\$110 to FL\$2,290 amid renewed speculation that it would sell its loss-making storage subsidiary, in spite of details by the company.

GURICH fell in thin trade, the Swiss index closing 4.3 lower at 472.6.

CS Holding, the parent of Credit Suisse, shed SF\$15 to SF\$1,625 on its plan to increase the stake in its troubled investment banking affiliate, CS First Boston, from 45 to 50 per cent. Holderbank, the cement producer, fell.

SF\$1,690 to SF\$1,650 after it forecast a drop of nearly fifth in group net profits this year.

## BUSINESS LAW

## Accounting for nothing

By William Bishop and Simon Carne

IN FEBRUARY, in *Caparo Industries v Dickman*, the House of Lords ruled that the purpose of audited annual accounts was to give existing shareholders information on the company's past trading. The compulsory audit is not for the protection of potential investors or those who enter into business relations with the company.

This ruling came as a surprise to almost everyone in the business community. As a result of the judgment, auditors will not in general be held responsible for losses to third parties arising out of negligently audited accounts.

The economic consequences are potentially profound. Neither banks which lend to companies, nor trade creditors, nor investors who buy shares have a right of redress from negligent auditors.

Currently, in a related case (*Morgan Crucible Company v Ash*), the House of Lords is asked to rule whether the DTT brings forward legislation to make auditors carry responsibility for their work, the market has already begun to correct the position for itself.

For example, banks have in many recent instances made it a condition of a loan that the borrower's auditor should write confirming that the bank may rely on the auditor's past and future audits, reports, thereby providing an irrevocable and open-ended basis on which the bank can sue the auditor in the event that negligence is found.

Similarly, investors in negotiated share purchases or acquirers in company takeovers have sought a written acknowledgment from the auditors that the most recent audited accounts formed (part

of) the basis on which the deal was founded.

By this means, the banks and investors create the link which the House of Lords said in *Caparo* was necessary if the auditor was to owe a duty of care to lenders and investors.

But the position is by no means back to square one. Auditors, having won an unexpected reprieve, are not giving up their new-found freedom lightly.

Many firms have declined to give banks the letter of assurance they require. But this posture cannot be maintained for long. If companies cannot get loans because of their auditor's lack of co-operation, the companies will change auditor.

After all, for years now, auditors have been willing to run the risk of negligence suits against them in return for the recurring annual audit fee. Even if some firms insist on hiding behind the *Caparo* ruling, there will be many more firms which will not turn down new business and new recurring annual fees - simply because their prospective clients ask for a return to the previously understood position.

Indeed, one can easily envisage a state of affairs in the not too distant future where it is the normal business practice for all relevant transactions to be accompanied by letters of acknowledgement from the auditor.

It is likely to become normal practice also for companies to include in their letters to contain a clause requiring the auditor not to withhold such letters without good reason. Any client who does not require such a commitment from his auditor should expect to be charged a reduced audit fee to take account of the saving in the auditor's insurance premiums.

But what of stock market transactions and particularly the hostile takeover? The buyer has no opportunity to investigate the company for himself. Until now, the audited accounts have provided a measure of comfort - or so it had been thought.

It is true, the accounts did not hold out any promise for the future, but at least the auditor's opinion provided comfort that the company's balance sheet and its past transactions had been accounted for in accordance with generally accepted accounting principles and pub-

lished accounting standards. With no redress from the auditor in the event of an improperly given audit opinion, a hostile takeover will become too risky. At the very least, there would be an effect on the bid price. In the absence of corrective legislation, it will be up to the Stock Exchange to seek ways to mitigate the effects of the increased risk.

One course of action the Stock Exchange might explore is to require all quoted companies to obtain from their auditors an annual letter addressed to the Stock Exchange acknowledging that the company's accounts are used by members of the Exchange in the daily transactions that take place.

There would inevitably be tough negotiations between the Stock Exchange and the Institute of Chartered Accountants over the form of such a letter, but these bodies should be able to come to an accommodation which will enable London to continue to function effectively as an international stock market.

And what of the courts' role in all of this? When the business community has settled down into a revised *modus operandi*, the recent judgments will probably seem as nothing more than a temporary hiccup. But there will still be a cost to the community - the cost of resuming "normal service" and the losses suffered by those who miss out in the meantime.

For many years now, negligent auditors (and their insurers) have settled claims from, for example, banks on the for assumption that auditors were liable. Is it in the public interest to rule now that those settlements were wrongly founded? Was it likely that the business community would accept such a judgment without demur?

How can the stock markets function effectively without any sanction against an auditor who reports improperly on the company's financial position and would the market allow such a lax position to prevail?

On a more legalistic note, if the compulsory lodging of audited accounts with Companies House is solely to protect the existing shareholders and

not for the benefit of the community at large, why are companies with unlimited liability exempt from this requirement? Surely their shareholders need more protection, not less?

Law and economics cannot function in isolation of each other. They are inextricably interlinked, not because we choose to make them so, but because legal and economic forces interact to determine business behaviour.

Until the courts' recent judgments, it had been a widely held belief - possibly a universal belief among businessmen - that the laws surrounding limited liability companies existed to protect not only the existing shareholder from the company's management, but also to protect those who did business with such companies by imposing a discipline on those who would protect themselves behind the cloak of limited liability.

Businessmen held this belief and believed it to be sensible. If the courts say that is wrong in law, it is inevitable that businessmen and the markets in which they operate will adjust to restore the position (unless the legislature steps in to save them the bother).

Economists, and lawyers familiar with economics, know all about this phenomenon. It even has a name: it is called the "Coase Theorem". Whenever the law creates or imposes an inefficient rule, people will bargain and contract around it. They will eventually arrive at an efficient result - one the law could and should have adopted in the first place - only they will have wasted effort ("resources") in negotiating and contracting.

In America, judges nowadays are familiar with some economics. About half the federal judges have attended courses in economics for judges - and it shows in their judgments. For example, the Coase Theorem is mentioned in several American cases. The reasoning needed to think one's way through the policy considerations of *Caparo* is not difficult - many American courts would do it without comment - and the benefit to commerce makes it worthwhile to take the time to do so.

The authors are principals in *Patten, Hayes & Bartlett*, economic and management consultants, specialising in litigation, consulting and expert evidence.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY NOVEMBER 13 1990							MONDAY NOVEMBER 12 1990							DOLLAR INDEX		
	Figures in parentheses show % change of stock	US Dollar Index	Day's Change	Pound Sterling Index	Yen Index	Local Currency Index	Local % chg on Yield	Gross Domestic Product	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)	
Australia (77)	125.13	+1.1	94.43	102.47	98.28	106.86	+1.1	7.41	123.83	93.55	100.74	95.31	105.71	158.31	118.98	147.82	
Austria (15)	202.81	+1.4	153.06	106.09	158.05	155.79	+1.4	7.75	199.92	151.03	162.65	153.88	153.61	235.63	178.57	145.43	
Belgium (81)	139.78	+0.6	105.47	114.44	107.54	104.95	+0.3	5.52	138.96	104.90	112.95	108.38	104.62	126.87	140.90	147.82	
Canada (120)	125.08	+0.4	94.39	102.42	96.23	105.36	+0.3	3.78	124.84	94.18	101.99	95.93	103.23	153.61	121.24	148.71	
Denmark (33)	255.59	+0.5	192.85	203.31	198.98	197.45	+0.3	1.50	254.94	192.60	207.41	198.24	198.78	234.05	216.30	216.30	
Finland (22)	105.42	+0.9	79.56	86.33	81.11	78.35	+1.0	3.69	104.52	78.96	85.03	80.45	77.59	125.29	98.91	98.91	
France (125)	140.03	+0.8	105.68	114.88	107.73	105.33	+0.9	3.79	138.88	104.92	112.97	106.88	106.85	124.98	124.98	131.17	
Germany (41)	115.92	+0.7	87.48	94.94	89.19	89.19	+0.6	2.54	117.67	87.01	93.71	88.66	88.65	144.03	95.95	95.95	
Hong Kong (48)	122.62	+1.8	92.29	100.14	94.10	122.33	+1.7	5.41	120.15	90.77	97.74	92.48	102.32	147.49	117.57	117.57	
Ireland (17)	150.16	+0.5	113.32	122.97	115.84	118.80	+0.5	4.48	149.42	112.88	121.58	115.01	116.26	138.04	158.54	158.54	
Italy (91)	82.00	+0.9	61.88	67.14	63.08	68.14	+0.8	3.61	81.23	61.38	68.08	62.62	67.58	109.28	80.87	80.87	
Japan (100)	134.33	+0.3	100.00	100.00	100.00	100.00	+0.3	0.00	134.33	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
Malaysia (33)	194.13	+0.3	146.51	158.97	149.37	201.80	+0.3	3.11	193.54	146.21	145.87	148.97	201.18	250.89	182.98	194.13	
Mexico (12)	54.37	+1.3	413.09	448.24	421.17	174.81	+1.0	0.38	54.37	408.19	438.57	448.99	173.69	561.24	295.36	295.36	
Netherlands (28)	131.32	+0.2	101.12	105.18	102.61	105.18	+0.2	0.27	131.32	101.12	105.18	102.61	105.18	105.18	105.18	105.18	
New Zealand (19)	49.28	+2.1	37.19	40.36	37.92	42.71	+1.5	7.86	48.28	36.48	38.28	37.17	42.08	75.36	46.15	75.36	
Norway (27)	228.51	+0.4	172.46	187.14	175.83	179.28	+0.4	1.72	229.33	173.28	186.57	176.52	179.99	278.79	202.34	217.41	
Portugal (26)	154.85	+1.4	116.87	128.81	119.15	122.06	+1.5	3.26	152.63	115.32	124.19	117.50	120.22	206.24	147.24	158.54	
Spain (40)	158.24	+0.4	124.70	135.31	127.14	131.03	+0.9	1.88	158.24	124.56	132.67	127.14	131.03	171.25	127.25	127.25	
Sweden (42)	148.02	+0.2	112.48	122.14	114.66	105.87	+0.0	5.23	147.78	122.39	123.03	114.51	105.86	182.25	154.51	154.51	
Switzerland (7)	168.90	+1.5	127.47	136.32	129.97	138.71	+1.5	2.93	168.45	125.75	135.42	128.12	136.64	243.92	170.05	170.05	
Taiwan (68)	92.66	+0.3	75.68	71.30			+0.5	2.97	92.66	70.15	70.15	70.15	70.15	70.15	70.15	70.15	
United Kingdom (256)	161.96	+0.3	122.00	132.37	124.37	122.00	+0.2	5.68	161.16	121.75	131.08	124.03	121.75	176.18	139.87	143.14	
USA (633)	128.22	+0.5	96.77	105.01	98.66	128.22	+0.5	3.84	128.87	97.33	104.85	99.20	128.87	146.99	118.06	137.28	
Australia (83)	136.52	+0.5	103.03	111.80	105.06	104.21	+0.4	4.43	136.91	102.87	110.58	104.51	105.80	157.95	124.91	124.91	
Norway (112)	181.57	+0.7	137.02	148.89	139.71	138.76	+0.7	1.19	181.57	137.02	148.89	139.71	138.76	181.57	137.02	137.02	
Portugal (112)	131.32	+0.2	101.12	105.18	102.61	105.18	+0.2	0.27	131.32	101.12	105.18	102.61	105.18	105.18	105.18	105.18	
USA Pacific (1615)	132.73	+2.0	101.17	108.69	102.12	108.69	+2.3	2.58	130.17	98.33	105.89	100.18	104.16	174.18	116.03	159.23	
North America (653)	127.94	+0.3	95.59	104.78	98.46	126.73	+0.3	3.84	128.53	97.10	104.57	99.86	127.31	148.43	118.26	137.61	
Europe Ex. UK (201)	120.68	+0.3	95.59	104.78	98.46	126.73	+0.3	3.84	128.53	97.10	104.57	99.86	127.31	148.43	118.26	137.61	
Europe Ex. Japan (201)	119.31	+1.3	90.94	97.71	91.81	105.81	+1.3	6.29	117.73	88.84	95.78	80.63	90.45	148.72	116.03	137.61	
World Ex. US (1810)	133.03	+1.9	100.99	108.94	102.96	107.19	+2.2	2.61	130.56	98.63	106.02	100.46	104.89	173.77	117.12	159.00	
World Ex. UK (2827)	120.27	+0.3	95.59	104.78	98.46	126.73	+0.3	3.84	128.53	97.10	104.57	99.86	127.31	148.43	118.26	137.61	
World Ex. Japan (2283)	130.93	+1.1	98.19	105.55	100.12	113.71	+1.3	3.02	128.72	97.24	104.73	99.95	112.26	161.84	118.04	159.00	
World Ex. Japan (2845)	131.60	+0.0	99.32	107.72	100.28	117.63	+0.0	4.18	131.61	99.43	107.08	101.32	117.58	159.51	124.31	132.91	
The World Index (1990)	130.32	+1.1	88.36	108.72	101.26	113.83	+1.3	3.03	128.94	97.41	104.90	99.29	112.40	162.05	118.33	159.00	